Austria	Sch24	Iran	Rls210	Pakistan	Rs25
Bahrain	Din0.700	Israel	Shk3.50	Philippines	Peso40
Belgium	BFr55	Italy	L2000	Poland	Zl 9,000
Cyprus	C£0.90	Jordan	JD1	Portugal	Es165
Denmark	DKr12.00	Korea	Won 2000	Qatar	QR5.00
Egypt	E£3.25	Kuwait	Fils.500	S.Arabia	SR7.00
Finland	FM8.50	Lebanon	L£900.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr55	Spain	Pta165
Germany	DM2.00	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr180	Morocco	MDh9.00	Switz	SFr2.80
Hungary	Ft107	Neth	Fl 3.25	Thailand	Bht50
Iceland	IKr160	Nigeria	Naira12	Tunisia	Din0.800
India	Rs15	Norway	NKr12.00	Turkey	L2000
Indonesia	Rp3100	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,295

Monday November 5 1990

D 8523A

INDIA
Turmoil erodes the Nehru legacy
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Hurd seeks to calm crisis of confidence on Europe

By Philip Stephens, Political Editor, in London

BRITAIN'S foreign secretary, Mr Douglas Hurd, pledged yesterday that the UK remained committed to a "deeper partnership" with Europe as ministers sought to calm a crisis of confidence among Conservative MPs.

His efforts to reassure the government's supporters came as Mr Michael Heseltine fuelled speculation about a challenge to Mrs Margaret Thatcher's leadership with a scathing attack on her approach.

In what was seen as an attempt to provoke a contest later this month, the former defence secretary warned that a less-than-enthusiastic policy towards Europe risked driving the government from office. In a lightly-coded letter to his constituency, he suggested that Mrs Thatcher was out of tune with Cabinet views.

His comments came ahead of Wednesday's debate in the House of Commons on the Queen's Speech, which opens the new session of parliament. Mrs Thatcher will face a renewed attack from Mr Neil Kinnock, leader of the opposition Labour party, on her European policy and renewed charges that her government is in disarray.

It also anticipated what ministers concede are likely to be dismal performances by the Tory candidates in the Bradford and Bootle by-elections on Thursday. A bad result in Bradford, in particular, would add to the growing alarm among Tory MPs.

Mr Heseltine denied that his message – delivered before he left for a tour of the Middle East – was a direct challenge. It drew a bitter response, however, from friends of Mrs Thatcher and public criticism from senior Tory MPs.

Mr John MacGregor, the new leader of the House of Commons, joined Mr Hurd in emphasising that the vast majority of Tory MPs were united over Europe and backed the prime minister.

Other ministers warned that a leadership contest could provoke a civil war in the party, wrecking its prospects of re-election. There was private acknowledgment, however, that the resignation of Sir Geoffrey Howe had left Mrs Thatcher facing a grave crisis of confidence.

A handful of backbench MPs called openly for her to stand down, while others said that it might be impossible to avoid a contest.

Downing Street insisted that the prime minister was unrepentant about her forthright defence of British sovereignty at last week's Rome summit and in her subsequent remarks in the House of Commons.

Some ministers expressed hopes, however, that she will seek to rebuild party unity by adopting a more emollient tone this week. Mr Hurd, who has been in the forefront of efforts to heal the divisions left by Sir Geoffrey's resignation, said that between 80 and 90 per cent of Tory MPs were behind the policy agreed by the Cabinet.

That policy involved Britain adopting a "strong and central position" in the debate on European economic and monetary union, based on its proposals for a "hard Ecu". That would become first a common currency and could ultimately evolve into a single currency.

On television, Mr Hurd sought to dismiss the charge that Mrs Thatcher was instinctively opposed to further integration. He acknowledged that her tone was frequently "combative" but stressed repeatedly that it was the substance of the government's position that mattered. It was strongly opposed to the single currency and central bank favoured by its partners but Mr Hurd emphasised: "A deeper partnership of member states is what we have decided on ... this is the policy".

He accepted that the prime minister did not think that the new Ecu would become widely used, but said that the most important issue was that she was ready to leave any decision on its development to the markets.

Tories in turmoil, Page 6
EC farm fiasco, Page 17

Radical Soviet economic plan is 'doomed to failure'

By Quentin Peel in Moscow

THE RADICAL programme of a 500-day transition to a market economy in the Soviet Union is doomed to failure and the country is heading for hyperinflation, according to the 13 economists who wrote the plan.

The collapse of a consensus between the republics of the union and the failure to begin measures to curb state spending and stabilise money supply have undermined the essential preconditions of the programme, they say.

The 13, including President Mikhail Gorbachev's two closest economic advisers, Professor Stanislav Shatalin and Professor Nikolai Petrakov, spelt out their deeply pessimistic forecast yesterday in a public letter to the press.

It coincided with the release of forecasts by the government of a fall in Soviet exports next year of more than 40 per cent, including a cut of more than half in planned oil exports.

The figures were presented last week to the Supreme Soviet in Moscow as part of the government's forecast foreign trade plan for 1991, suggesting that desperately needed hard currency earnings for consumer goods imports will actually almost evaporate.

Profound economic pessimism now appears to be compounding the incoherence in decision-making at the highest levels of the Soviet government, affecting even an exclusive briefing for 20 chairmen and chief executives of leading west European banks and corporations organised over the past weekend on the outskirts of the Soviet capital.

Soviet president Mikhail Gorbachev may declare a state of emergency in the strife-torn republic of Moldavia after the killing of at least six demonstrators by local militia on Friday, the republican parliament was warned yesterday. The state of emergency would be declared if the local authorities in Moldavia, split by militant factions of Romanian and Russian speaking nationalists, fail to control the situation. Page 18

The letter from the Shatalin group, whose 500-day plan has been formally adopted by the Russian federation and is supposed to have begun to be implemented since November 1, amounts to an attack not only on the Soviet government of Mr Nikolai Ryzhkov, but on the Russian government and parliament and, by implication, on the indecisiveness of Mr Gorbachev himself.

It says the crucial failure in the two months since the plan was presented has been to begin the programme of stabilisation, intended to control the rampant increase in money supply, before any price liberalisation can be allowed.

"The transition to a market will now be implemented not through the stabilisation of the rouble, but through inflation, and belated measures to overcome it, which will prove very painful," they say.

According to Izvestia, the government newspaper, 85 per cent more banknotes were issued in the first nine months of 1990 than in the same period of 1989, and the total will reach Rbs28bn in new money by the end of the year.

As for inflation, it says prices in the free farmers' markets rose by 34 per cent in September alone. Most of the goods on sale are no longer available in state shops.

Black market prices for consumer goods are 100 to 200 per cent higher than a year ago.

The Shatalin group says the government plan to reduce its budget deficit to Rbs25bn-Rbs30bn next year is "unrealistic," predicting that it will reach those figures in the first quarter alone, without the sort of swingeing credit curbs and spending cuts they propose.

With inflation already rising towards three figures, the government will be forced to introduce the sort of total wage compensation it originally proposed.

"This way is the way of hyper-inflation," they say.

US Secretary of State James Baker listens to the views of US troops in Saudi Arabia yesterday

Baker seeks backing for military action in Gulf

By Peter Riddell in Washington, Lamis Andoni in Baghdad and Tony Walker in Cairo

MR James Baker, US secretary of state, began his week-long trip to consult Arab, Soviet and European leaders yesterday, saying he would seek to "lay the foundation" for possible military action against Iraq if economic sanctions and diplomacy fail to force its withdrawal from Kuwait.

Talking to reporters before arriving in Bahrain and making a short visit to US troops in Saudi Arabia, he said: "We would like to know under what conditions and subject to what restraints they would be willing to consider certain types of action."

Mr Baker later told the soldiers he could not be specific about how their deployment would culminate.

President George Bush is not expected to decide on the timing and nature of further moves until he has heard Mr Baker's report and after his own visit to the region in 2½ weeks. At present, the US is determined to maintain pressure on the Iraqi regime and to ensure that the military option appears credible.

Mr Baker will meet the foreign ministers of all five permanent members of the United Nations Security Council, including Qian Qichen, the Chinese foreign minister. Qian, who favours an Arab solution to the crisis, is to meet Mr Baker tomorrow on a regional tour which will include talks

Continued on Page 18

Legislation delay disarms US foreign investment watchdog

By Peter Riddell, US Editor, in Washington

FOREIGN INVESTORS acquiring US companies face several months of confusion and uncertainty because Congress has failed to renew the legislation authorising the review and blocking of such deals by the federal government.

Congress has adjourned until early next year and the Treasury, which heads the inter-agency committee on foreign investment in the US (Cfius), was reviewing the position last week and an announcement is likely in a day or two.

While there is confusion about the precise legal position, Cfius is expected to continue to review foreign mergers and acquisitions on a voluntary basis under a pre-existing executive order of 1975.

However, because of the expiry of the so-called Exon-Florio provisions of a 1988 law which greatly strengthened the process, there will no longer be a specific statutory timetable and the president will not have the power to suspend or block a transaction if it is found to impair US national security.

This does not mean that foreign investors have freedom to do what they want, because once the Exon-Florio provisions are re-authorised there will be powers to look at takeovers already agreed.

The Association for International Investment, a body representing foreign investors headed by Mr Elliot Richardson, a former US Commerce Secretary, is urging companies to comply voluntarily. He notes that, after the expected re-authorisation, Cfius will, if necessary, be able to recommend to the president that he seek the divestment of a completed acquisition found to impair US national security. "Nothing is to be gained by failing to comply," he says.

The whole issue of restrictions on foreign investment is likely to be reopened once Congress returns and considers re-authorising the Exon-Florio law.

Several Democrats, including Senator Al Gore and Congressman Doug Walgren, have argued that the present provisions are too permissive and allow the takeover of high technology companies crucial to the industrial future of the US. They have urged a strengthening of the law to broaden the definition of national security to include vital economic and industrial interests and to provide for subsequent monitoring of such acquisitions.

Even extending the present Exon-Florio provisions may take some time because of the controversy which led up to the failure to reauthorise the 1950 Defence Production Act, on to which Exon-Florio was added two years ago. Renewal was held up by a quite separate dispute.

The general view is that Exon-Florio has therefore lapsed, although some believe it may not have been affected by the termination of the broader law.

World News

Janata Dal split close as rebels press Singh to quit

The Janata Dal party of Indian prime minister V. P. Singh seemed in danger of splitting last night as rebels mounted further pressure on him to step down as head of government and as party leader.

Mr Singh's government faces certain defeat in a vote of confidence in parliament on Wednesday. Page 18

Boost for Kaifu

Japan's ruling Liberal Democratic Party narrowly won an upper house by-election in what had virtually become a referendum on Premier Toshiki Kaifu's plans to send troops to the Gulf. Page 18

'Greenhouse' warning

The world faces catastrophic global warming unless swift action is taken to reduce "greenhouse" gases, scientists warned environment ministers meeting in Geneva tomorrow for the world climate conference. Page 18

Warsaw Pact accord

The six Warsaw Pact countries signed an agreement on the allocation of tanks, artillery pieces and other conventional weapons among them, clearing the last big obstacle to a treaty on arms reduction in Europe. Page 4

Polish strike threat

Polish government faces its first big clash with the country's once all-powerful coal miners, due to stage a two-hour strike today. Page 4

EC border checks

UK strongly reiterated its opposition to abolishing border checks within the European Community, although it is near agreement with its EC partners to harmonise controls on the external EC frontier with the rest of the world. Page 4

Mozambique deaths

Mozambican rebels killed 25 people in a pre-dawn raid on a village in the southern province of Gaza, Radio Mozambique reported.

Israel rejects talks

Israeli Cabinet minister rejected a proposed conference on protecting Palestinians as a meeting of the world's "biggest murderers."

German police probe

Police in Leipzig were rebuked and face an investigation after shooting dead one person and wounding three in the worst outbreak of football violence in eastern Germany.

Iran accuses Iraq

Iran accused Iraq of holding hundreds of Iranian prisoners of war in spite of Baghdad's claim that it has freed all its Gulf war captives.

Japan, N Korea talks

Japan and North Korea failed to reach agreement after two days of preliminary talks in Beijing on resumption of ties frozen since World War Two, a Japanese official said.

Amazon air crash

Rescue efforts were renewed to find possible survivors of an aircraft which crashed with 12 people aboard on Saturday in the Amazon jungle, civil defence spokesperson said.

Mary Martin dies

Mary Martin, who played Peter Pan on stage and television and won fame for other Broadway roles, including The Sound of Music and South Pacific, died at her home in Rancho Mirage, California, aged 76.

Astronauts go higher

Nasa is trying to trace the owner of a bag of cocaine discovered in a hangar where space shuttles are prepared for launch, US space agency spokeswoman said.

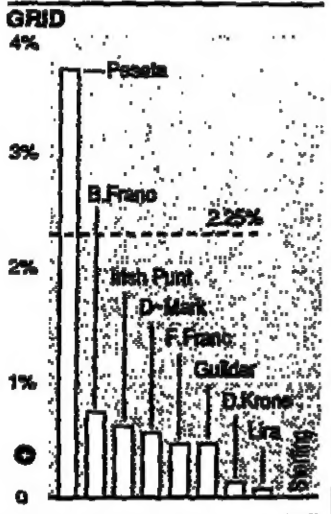
Business Summary

EC ministers in 'make or break' talks over subsidies

European Community farm and trade ministers gather in Brussels today for what has been widely dubbed a "make or break" meeting in the Uruguay Round trade talks. On the table again will be the European Commission proposal for a 30 per cent cut in farm supports over 10 years. Page 18

EUROPEAN Monetary System: Sterling finished as the weakest member of the system last week, two pfennigs below its central rate against the D-Mark. Political and economic factors weighed on the pound, and a rise in the Bundesbank's Lombard rate did not help. This also depressed the Italian lira, with the D-Mark touching a record high on Friday, while a cut in official French rates encouraged a weakening of the French franc. The Belgian franc and Dutch guilder were protected by rate increases. Editorial comment, Page 16

EMS November 2, 1990



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate within 6 per cent fluctuation bands.

CAR industry: A merger of car operations was one option discussed by Fiat of Italy and Chrysler of the US in year-long talks that have just ended without agreement. Page 19

NATIONAL Mortgage Bank of Greece, one of country's largest banks, has pleaded guilty in New York to having run a $700m money-laundering scheme in the US. Page 2

IBCA, European credit rating agency, has downgraded six Japanese banks from triple A to AA plus because of drop in their profits. Page 19

BURMAH Castrol, UK lubricants, fuels and chemicals group, is to supply Romanian state railway with lubricants in a deal which could be worth $97m over six years. Page 20

SATELLITE merger: UK's Independent Broadcasting Authority is to meet shareholders of British Satellite Broadcasting to get details of merger with Rupert Murdoch's Sky Television. Page 7; Analysis, Page 19; Editorial comment, Page 16; Lex, Page 18

POWER Financial Corp, main financial services arm of Montreal financier Paul Desmarais's Power Corp of Canada, posted third quarter earnings of C$ 41.8m (36m). Page 21

CHINA Light and Power, Hong Kong-based electricity utility, has announced after-tax profits of HK$2.32bn ($295m) for year to end-September. Page 21

PRODUCTION difficulties have prevented the updating of certain US stock market prices in Section II

CONTENTS

THE MONDAY INTERVIEW

Yoh Kurosawa, newly-appointed president of the Industrial Bank of Japan, chooses his words carefully. But he does not try to hide the seriousness of the current outlook for banks and borrowers Page 38

FT SURVEYS THIS WEEK

International Fund Management:
UK funds lead global race.
See separate section today.

INTERNATIONAL NEWS

US considers walking out of Uruguay Round talks

By Nancy Dunne in Washington

A WALKOUT by the US from the Uruguay Round of trade liberalisation talks is under discussion by the Bush administration.

President George Bush is reported to be irritated over the failure of the European Community to table a new offer, with serious possibilities for negotiation, over agriculture trade reform.

Turning to personal diplomacy for which he was acclaimed in the Gulf crisis, Mr Bush telephoned European heads of state before last weekend's EC summit. He urged progress on the vital issues of agriculture.

But he was rebuffed by French and German intransigence, and has now asked his chief economic advisers to develop trade policy options for the future.

Mr Clayton Yeutter, the US agriculture secretary, argued last Friday in a meeting of the president's Economic Policy Council in favour of a walkout by US negotiators over agriculture.

The Eminent Persons Group, formed by former high officials from around the world, emphatically warned last week that a walkout could mean the end of the round.

The talks are in trouble in many areas – particularly over which services sectors should be included under the General Agreement on Tariffs and Trade (Gatt) – to the extent that completion of an agreement early next month in Brussels, as scheduled, would seem to require either a miracle or an entirely new approach.

Some Democrats in Congress are being pressed by American farm lobbyists to put forward a plan for an international food reserve. This would absorb much of the world's growing surpluses, take pressure off prices, reduce government subsidy costs and provide a ready aid source for the world's poorest countries.

Although this scheme could find support in the EC and the third world, Mr Julius Katz, the US deputy trade representative, dismissed this suggestion.

He said he had tried to negotiate a world food reserve in the 1970s and the effort had come to nought.

The Bush administration seemed already to have prepared its fall-back position with the president's new "Enterprise for the Americas" policy. His grand scheme for US government debt forgiveness and a free trade area encompassing the American continents has won wide praise south of the US border. It has also produced a number of "framework" agreements designed to lay the groundwork for liberalised trade.

Bank of China to make loans to foreign-funded companies

CHINA's state bank will extend $93m in special loans to help about 100 foreign-funded companies cope with cash shortages, an official newspaper reported Sunday, AP reports from Peking.

In an interview with China Daily's Business Weekly, Wu Dongmin, an official of the Bank of China, said the fixed asset loans are in addition to the bank's originally planned loans for 1990.

The loans are earmarked for capital construction, expansion projects and to import equipment, Wu said.

The report said priority for the new loans would be given to enterprises that can produce for both international and domestic markets, projects that have advanced technology to update China's industrial plants, and businesses involved in the fields of energy, telecommunications, transport and the material industry.

Among the beneficiaries are the Canton Peugeot Automobile Company and the Anyang Glass Company, in eastern China's Henan province, the report said.

The Sino-French car joint venture last month received a $15m loan from Banque Nationale de Paris to expand its annual production and increase local output of parts.

Wu said the new loans are intended to attract foreign capital through more investment in China. He said money made available through the loans would reach some businesses by the end of the year.

Foreign investors have been disillusioned with China because of a market slump, cash shortages resulting from a two-year-old government austerity program and political concerns following the military crackdown in June 1989 on student-led demonstrations urging democratic reforms.

The China Daily said the Bank of China has supplied the equivalent of $1.98bn in Chinese currency and $500m worth of foreign currencies in working capital to foreign-funded ventures that began operations this year.

The figures represented increases of 80 per cent and 20 per cent, respectively, in those areas over the same period last year, it said.

● Foreign ministers of China and Thailand, meeting in Peking, have called for the early election of a chairman for Cambodia's supreme national council, official New China News Agency said yesterday, Reuter reports.

Qian Qichen and Thailand's Subin Pinkayan said they wanted a chairman named as soon as possible to allow the governing body to begin normal operation, according to the agency.

Three Cambodian guerrilla factions and the Phnom Penh government agreed in September to form the council as part of a United Nations plan to end 11 years of fighting.

The council would oversee the running of the country before free elections while the United Nations took over five key ministries.

Greek bank guilty of US money laundering

By Alan Friedman in New York and Kerin Hope in Athens

NATIONAL Mortgage Bank of Greece (NMBG), one of the country's largest banks, has pleaded guilty in New York to having run a $700m (£360m) money-laundering scheme in the US. The bank has agreed to pay $8m in fines.

Mr Apostolos Georgiakis, a governor of the Athens-based bank, told a US district judge that "with what the bank did, we are guilty".

The bank and 12 of its US executives were named last March in an indictment charging violations of federal currency reporting laws, conspiring to defraud the Internal Revenue Service since 1985 and operating a bank without a licence.

The bank catered almost entirely to Greek-Americans. Its branches were not authorised under US law to perform usual banking functions, but opened accounts anyway, accepting deposits and processing withdrawals for thousands of customers. Deposits were remitted to Athens or deposited into accounts held by NMBG in the US, thus circumventing US laws requiring reporting on large deposits.

At home the state-controlled NMBG acts as a specialised credit institution arranging housing loans.

Greek authorities have co-operated with the US probe into the money-laundering operation and NMBG officials said several months ago the bank would not contest any fine imposed in the case.

Mr George Anomeritis, the bank's ex-governor, who was appointed by the former Socialist government, denied involvement, claiming the laundering was carried out by the bank's US representative offices without his knowledge. He has since been charged with breach of faith for allegedly granting an illegal $4m loan to a Greek hotel company in 1987.

The NMBG case has attracted relatively little attention in Greece. As a senior Greek banker put it yesterday: "It's just another of the financial scandals from the days of the Socialist government."

Democrats face small mid-term gains

By Peter Riddell, US Editor, in Washington

DEMOCRATS stand to make small gains on existing congressional majorities in tomorrow's mid-term US elections, amid growing complaints about the running of government, negative campaigning and the political advantages of incumbents.

A survey of 12 political analysts and consultants in yesterday's Washington Post pointed to a net Democrat gain of one seat on its present 55 to 45 margin over the Republicans in the Senate, and of between four and 17 in the House of Representatives, where the party at present has a 258 to 176 margin.

Several Senate races have become too close to predict safely. These include the Democrat seat of Hawaii and Republican seats in North Carolina, Oregon and Minnesota. Once-threatened Democrat incumbents in Iowa, Massachusetts, Illinois and Rhode Island now look more secure.

The Democrats are also expected to maintain their strong grip on state governorships, standing to gain Texas – where Mr Clayton Williams (Republican) is in growing trouble over a series of gaffes – and Florida, where Mr Lawton Chiles, a former Democrat US Senator, looks like beating Mr Bob Martinez, the incumbent Republican. But the Republicans are increasingly favoured to retain the big prize of California.

Mr Richard Gephardt, Democrat House majority leader, forecast a gain for his party of six or seven seats in the House and of two or three seats in the Senate.

Mr John Sununu, the White House chief of staff, forecast a virtual break-even in the Senate, and losses of about eight in the House. He said this would be better than the average for the mid-term, when the party in power in the White House loses much larger numbers of seats.

However, the starting position is worse than before since, uniquely, in 1988 the Republicans lost ground in Congress when their candidate won the White House. Moreover, Republicans had been hoping to pick up some seats in the Senate to provide a springboard to recapture control in 1992, the presidential election year. If their support falls to about 43 seats that will be more difficult.

There is increasing controversy over the campaign tactics of North Carolina Republican Senator Jesse Helms in raising the issue of race against Mr Harvey Gantt, his black Democrat challenger who is leading in two out of three recent polls.

The senator's recent advertisements have said white people would lose their jobs because of legislation favoured by Mr Gantt and have accused the Democrat of fighting a secret campaign among black voters. Mr Sununu was uncomfortable when asked yesterday about this campaigning, saying that the White House is "absolutely opposed to any kind of a racial aspect to any campaign".

Underdog evokes the Truman spirit

Lionel Barber reports on the gubernatorial race in California

DARKNESS was falling as Mrs Dianne Feinstein's Victory Express edged into Modesto. Another famous Democrat spoke here on a whistle-stop tour of California's central valley more than 42 years ago, and Mrs Feinstein is hoping for a similar come – from – behind win in her bid to become the first woman governor of California.

"I may not look like Harry Truman, and I may not cuss like Harry Truman," says the immaculately dressed Mrs Feinstein, immacutely turned out in red and white suit, "but I have the heart and determination of Harry Truman".

Wait a minute. . . This is no haberdasher's son from the mid-west; this is a wealthy doctor's daughter who grew up rich in San Francisco and her husband is a multi-millionaire financier who funds her campaign.

Two days before voters go to the polls, incongruities abound in the Feinstein campaign. The candidate rails against tax breaks for the wealthy but is surrounded by Hollywood celebrities like Mr Chevy Chase, who wrote her a $50,000 cheque three weeks ago.

The candidate says she is on the side of working men and women, but she can barely bring herself to utter the word "Democrat".

Two years ago even the Democrat nominee for president, Governor Michael Dukakis of Massachusetts, drew crowds of 10,000 people as he rode past the almond groves and the cotton fields of the San Joaquin valley. Here, in Bakersfield, Fresno, Modesto and Stockton the crowds number only a couple of hundred.

Dianne Feinstein: once called a female Bobby Kennedy

Pete Wilson: staked out his position on environment

What has gone wrong with the campaign mounted by a woman once described as a female Bobby Kennedy?

Mrs Feinstein's message is simple and direct; after eight years of drift under Republican Governor George Deukmejian, Californians need a change. "We've had overcrowded schools, uncontrolled growth and rising crime", she says. "They've had their turn, now it's our turn."

She still has some catchy one-liners, like the one on abortion: "We don't want to regulate a woman's body, we want to regulate the savings and loan industry." But polls show she is still a few points behind Senator Pete Wilson, her Republican opponent.

Mr Wilson has fought a clever, well-financed campaign which he has planned from the day he won his US Senate seat in 1982. He may lack charisma but he has staked out positions on the environment, abortion, and education which put him at the left of Reaganite Republicans and have neutralised Mrs Feinstein's claim to be the candidate of change.

More important, Californians appear less inclined to take a gamble on Mrs Feinstein when their economy is softening. Also women do not seem to be moving into the Feinstein camp, which is surprising in a state where women amount to a 51 per cent majority.

The truth is the Democrats have only won the governorship three times this century.

It was supposed to be different in 1990, the year of re-apportionment. Because the governor has influence over the redrawing of electoral boundaries – California will gain up to seven new congressional seats because of its booming population – this is a race which both parties are desperate to win.

But Mrs Feinstein does not have a natural base in the Democrat party. Her support of the death penalty is a turn-off for libertarian activists. And early this year she played up the image of the outsider who could run successfully in the primary without the state party's endorsement.

Whatever special appeal she had last May during the primary campaign, it was soon exhausted by a summer of hunting for money to stay in a race which by tomorrow will have cost $50m.

CONTRACTS & TENDERS

TURKISH AIRLINES INC.

Announces that Jet fuel A-1 required for the period of January 1st 1991 (inclusive)- December 31st 1991 (inclusive) at European, Middle East, Far East and U.S.A. airports will be purchased under sealed tender by adjudication. Bidders must deliver their proposal on or before 22nd November 1990 10.00am local time to the Turkey address below. Bidders wishing full information on bidding and list of technical and administrative conditions should contact:

Turkish Airlines Inc.
11-12 Hanover Street
London W1R 9HF
or
Directorate Of Purchasing And Stock Control Department.
Ataturk Airport, Turkish Airlines Inc.
General Management Building. B Block Floor A.
Istanbul Turkey.
Telex: 28871
Tel: 010 901 574 74 05 /
010 901 574 73 00 ext. 1004 or 1250
Fax: 010 901 574 74 44

Invitation To Tender

Tenders are invited for the urgent supply of 21,268 tonnes of soft wheat, to Bangladesh for delivery on fob stowed and trimmed terms to an EEC port. Loading shall commence no earlier than 3 December 1990 and no later than 28 December 1990 for 4 weeks.

The price for the supply and transportation costs of the soft wheat for the above tender will be determined on examination of the tenders which must be submitted by noon on 23 November 1990 to:

Crops B (Cereals)
Intervention Board
Fountain House
2 Queens Walk
Reading
Berks, RG1 7QW
Tel: Reading (0734) 583626 ext. 2911 or 2936

Notices of invitation to tender together with tendering forms may also be obtained from the above address.

LEGAL NOTICES

IN THE MATTER OF VS DREDGING SERVICES LIMITED AND IN THE MATTER OF THE CYPRUS COMPANIES LAW CAP 113

Notice is hereby given that the creditors of the above-named company which is being voluntarily wound up are required on or before the 5th day of December 1990 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and address of their solicitors (if any) to the undersigned Mr Anthony Hadji Roussos FCCA of Julia House, 3 Themistocles Dervis Street, P O Box 1612, Nicosia, Cyprus, the liquidator of the said company, and if so required by notice in writing from the said liquidator, are personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved

Date this 5th day of November 1990

A Hadji Roussos FCCA
Liquidator

HIGHGEM LIMITED

Registered number 2079086
Trading Name.- Laser Computer Services
Nature of Business: Computer training, software and hardware sales and services
Trade classification: Computer suppliers
Date of appointment of joint administrative receivers 19 October 1990
Name of person appointing the joint administrative receivers Barclays Bank plc JOSEPH PATRICK CONSIDINE and Richard Anthony Smart
Joint Administrative Receivers
(Office holder nos 056 and 286)
Cork Gully
Churchill House
Churchill Way
Cardiff
CF1 4XQ

REB FOOD SERVICES LIMITED

Registered number: 2345090
Nature of business: Food Production
Trade classification : Food drink and tobacco
Date of appointment of joint administrative receivers
22 October 1990
Name of person appointing the joint administrative receivers
Midland Bank plc

JOSEPH PATRICK CONSIDINE and Richard Anthony Smart
Joint Administrative Receivers
(Office holder nos 056 and 286)

Cork Gully, Churchill House, Churchill Way, Cardiff CF1 4XQ

COMPANY NOTICES

FLARMAGATE LIMITED (IN ADMINISTRATIVE RECEIVERSHIP)

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at:-

CORK GULLY, SHELLEY HOUSE, 3 NOBLE STREET, LONDON EC2V 7DQ

on 14 November 1990 at 2.30 p.m. for the purpose of having laid before it a copy of the report prepared by the Joint Administrative Receivers under section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:

(a) they have delivered to us at the address shown above, by no later than 4.00 p.m. on 13 November 1990, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

(b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.

Please note that the original proxy signed by or on behalf of the creditor must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.

Date: 26 October 1990
R W CORK AND J C M BISHOP
Joint Administrative Receivers

Continental (Bermuda) Limited US$ 250,000,000 Floating Rate Notes due 2006 Guaranteed by Hungarian Foreign Trade Bank Ltd

Notice is hereby given that as at the valuation date 5th November, 1990, the value of the zero-coupon obligations (or certificates representing interests in obligations) of the United States of America was US$ 65,038,600 and the value of the Company's reserve fund was US$ 52,689,199.95. The aggregate value of the Noteholders security was thus 47.09 per cent of the principal amount of the Notes outstanding at the valuation date.

The determination and publication of these figures is solely for the convenience and information of the Noteholders and shall not be binding for any purpose on the Trustee or the Reserve Fund Manager or the Reserve Fund Reporting Agent nor shall it be taken as recommendation on the part of the Company, the Valuation Agent, the Guarantor, the Trustee, the Reserve Fund Manager or the Reserve Fund Reporting Agent to buy, sell or hold investments similar to the zero-coupon obligations of the United States of America or the Reserve Fund Investments.

Valuation Agent
Girozentrale und Bank
der Osterreichischen
Sparkassen Aktiengesellschaft

هكذا من الأصل

Israel dismisses UN report on killings

By Hugh Carnegy in Jerusalem

ISRAEL yesterday dismissed a report by Mr Javier Pérez de Cuéllar, the UN secretary general, on the killing of nearly 20 Palestinians in Jerusalem last month and repeated Israel's belief that the Fourth Geneva Convention was not applicable to the occupied territories.

In his report to the Security Council, Mr Pérez de Cuéllar suggested the 164 signatories to the 1949 convention – designed to protect civilians in time of war or occupation – might convene to discuss ways of protecting Palestinians under Israeli rule.

As if to underline the issue, the Gaza Strip was convulsed by violence at the weekend as Palestinians demonstrated over a man's death in a Gaza prison. The military said he committed suicide using a cell blanket torn into strips.

Gazans, who frequently complain of beatings and even torture in detention, suspected he had died under interrogation and thousands took to the streets to protest.

A Palestinian man was killed and as many as 300 wounded in clashes with Israeli troops.

In Israel's first formal response to Mr Pérez de Cuéllar's report, the Foreign Ministry said millions had been killed in "tens of wars" since 1949 but Geneva convention signatories had never been convened.

Mr Ehud Omert, a cabinet minister, was more blunt, saying Israel would never agree to be judged by the world's "biggest murderers".

The statement said the fourth convention was not applicable in the West Bank and Gaza: their legal status was not one of occupation, as no nation's sovereignty over the territories was universally agreed before Israel captured them in 1967.

But it said Israel fulfilled its obligations there and added that international attention on the subject served only those seeking linkage between the Arab-Israel conflict and the Gulf crisis.

Booty from Kuwait fills the bazaars of Baghdad

By Lamis Andoni in Baghdad

IN FRONT of a big stall piled with colourful imported toys in Baghdad's Arabi *souk* or bazaar – where goods bought or looted from Kuwait have been on display – Iraqi children were admiring the goodies that only the country's elite can afford. At a time when poor Iraqis say they are suffering from milk shortages as a result of the international blockade, the display must be somewhat galling.

Children and their mothers sort through the toys with fascination but only a few stop to buy. "Only the rich can enjoy these goods – many families come here as a sort of entertainment on Fridays," said one father.

But as with many of the ironies of the Gulf crisis, it is rather a tormenting "entertainment" and evidence that, as in every conflict, there are those who get richer at the expense of the poor.

In the Kuwaiti crisis, the profiteers are traders who either looted the affluent Kuwaiti stores or bought goods cheap from Kuwaiti and expatriate merchants, and black marketeers who are selling staple foods at punitive prices.

Most staple foods are provided and rationed by the government, but big families who seek more are falling prey to black marketeers who sell a kilogram of flour for two Iraqi dinars (£3.30) – the official price is only a fraction of this.

Before the Gulf crisis, such an offence would have led to lengthy imprisonment, if not capital punishment. But the confrontation has brought a relaxation in implementing some strict Iraqi laws. At one grocery shop, the owner was discussing a deal involving smuggled video recorders and television sets on the telephone in front of his customers.

Goods such as canned food, electronics and kitchenware are flooding the Iraqi stores and new businesses are being established in Baghdad on the backs of ruined Kuwaiti and expatriate ones.

At the beginning, the Kuwaiti supermarkets were completely emptied – mostly looted – but now the trade between Kuwait and Baghdad has become more organised.

Iraqis who want to bring in Kuwaiti goods have to produce certificates to prove that they were not looted. A special trade licence, easily acquired, must be obtained from the Iraqi governor of Kuwait. But many Iraqis and a few Jordanian and Palestinian expatriates find ways around the rules.

According to one trader who has been in Kuwait, some Kuwaitis and expatriates take special "commissions" (in effect bribes) to issue forged receipts for stolen goods.

One Iraqi said that, on the way from Kuwait to Baghdad, many big trailers were carrying Kuwaiti goods and even furniture sold at cheap prices by people seeking to leave.

"There are practically very few stores left in Kuwait," said one expatriate on his way from Kuwait to Amman.

Iraqi traders now have to go to Kuwaiti warehouses to buy what is left. People who arrived from Kuwait last week said many Kuwaitis and expatriates still there were buying and selling goods.

"The streets of Kuwait have turned into a bazaar," said a Jordanian. He said people were displaying goods – mostly food – in car boots on Kuwaiti streets especially in the areas of Salwa, Hadikat al Shaab, and Amman street.

At the Arabi *souk*, traders say they have goods that could last for one or even two years. An owner of one of the tiniest stalls in the *souk* said he had about ID500,000 worth of cosmetics and toiletries in a warehouse.

Bangladeshi police injure student protestors

ABOUT 25 people were injured yesterday when Bangladeshi police baton-charged students protesting against communal violence associated with India's Ayodhya mosque dispute, Reuter reports from Dhaka.

Witnesses said some 500 students, who defied a ban on the assembly of more than five people, ran into a police barricade at Gulistan in central Dhaka.

When they ignored requests to retreat, police attacked the protesters with truncheons and chased them along rain-drenched streets towards the Dhaka University complex.

Student leader, Mr Amanullah Aman, told reporters the attack was unprovoked.

Authorities ordered a curfew in Dhaka on Thursday. Troops were called out when Moslems, enraged by attempts to demolish a 16th century mosque in Ayodhya, northern India, attacked Hindu temples across Bangladesh.

President Hossain Mohammad Ershad, who has ruled predominantly Moslem Bangladesh for more than eight years, has vowed to restore communal peace at all costs and ordered damaged Hindu temples to be quickly repaired.

Bhutto sworn in as MP after boycott

By Farhan Bokhari in Islamabad

Ms Bhutto: sworn in

MS Benazir Bhutto, Pakistan's former prime minister, took the oath of office as a member of the newly-elected parliament yesterday. She had boycotted inaugural proceedings on Saturday in protest at the government's failure to make travel arrangements for her husband Mr Asif Ali Zardari, in jail in Karachi, to be brought to Islamabad for taking the oath.

Mr Zardari was elected last week while facing charges of aiding in kidnapping and extortion. He went to Islamabad in police custody yesterday to take the oath.

Ms Bhutto said the government had acted in bad faith by cancelling Mr Zardari's travel arrangements late on Friday night after she had been told that he would be brought to Islamabad. Ms Bhutto also demanded an immediate end to the state of emergency imposed in August and full restoration of civil liberties.

Mr Mian Zahid Sarfaraz, the interior minister, told MPs that travel arrangements for Mr Zardari could not be made earlier because the authorities in Karachi were involved with controlling public demonstrations in protest against possible desecration of the Babri mosque in India.

● The Pakistan People's Party occupied opposition benches in the assembly for the first time in 23 years since the party was formed by Ms Bhutto's father, executed ex-prime minister Mr Zulfikar Ali Bhutto, Reuter reports from Islamabad.

The PPP won all the three elections it contested in 1970, 1977 and 1988, and blamed its defeat last month on alleged massive rigging by the caretaker government that took power after Ms Bhutto was dismissed in August.

Last month's elections were won by the Islamic Democratic Alliance (IDA), which chose its leader, Mr Nawaz Sharif, to be the next prime minister. He is due to take office on tomorrow.

Ben Ali calls for more debt aid for N Africa

PRESIDENT Zine al-Abidine Ben Ali of Tunisia said yesterday that European aid to North Africa was inadequate and Europe should reschedule North Africa's debts, Reuter reports from Tunis.

In a message to a symposium in Tunis, read for him by Prime Minister Hamed Karoui, Ben Ali said that of North Africa's foreign debt of $54bn, 75 per cent had financed puchases from European Community countries.

"This contributed to its (Europe's) growth, promoted its exports and created jobs there. In return we find that the size of European aid to Third World countries, especially Mediterranean and Maghreb countries, is still less than required," he said.

North Africa, which looks to the European Community for most of its export markets and foreign investment, is deeply concerned that it will suffer from European Community's plans for a single-market by 1992, and from East European competition for aid and investment.

Ben Ali proposed a "development contract" between Europe and North Africa to "define the obligations of each party . . . to prevent the gap growing between the two sides".

Human rights team says 60,000 missing in Sri Lanka

SIXTY thousand people have "disappeared" in southern Sri Lanka since 1987, when security forces responded to a campaign of terror by leftist rebels, according to an estimate by a European human rights team, Reuter reports from Colombo.

The four-member team, comprising two British Labour party members of the European parliament and two lawyers, said that possibly scores of people were still vanishing each week.

"What bothers us is that, despite a government claim that the JVP (People's Liberation Front) threat is over, many killings and disappearances are still going on," Labour party member, Ms Christine Oddy, said yesterday.

A JVP campaign of assassinations, strikes and industrial sabotage almost toppled the government last year before it was crushed by security forces and their vigilante backers.

The team, sponsored by the British organisation "Friends of the Disappeared," spent a week in the island compiling a report on human rights violations which it will present to the European parliament in Brussels tomorrow.

"Although the army and authorities deny responsibility for killings and disappearances, the scale is such that the government cannot be absolved from responsibility either by commission or omission," according to a draft report.

The team said the figure of 60,000 came from human rights group in Sri Lanka. Previous estimates by local human rights organisations have varied between 20,000 and 50,000.

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INTERNATIONAL NEWS

EC airs its reservations over booking systems

Paul Abrahams on the role of CRCs in deregulation of the civil aviation industry

AIRLINE computer reservation systems (CRSs) are a crucial element in European Commission plans to deregulate the European civil aviation industry.

Without these increasingly powerful systems, the liberalisation of the US domestic airline industry during the 1980s would have been impossible.

CRSs show what fares and flights are available on routes, take bookings and issue tickets. They facilitate the multiplication of different prices – as many as 100,000 different prices are charged by American Airlines in one day – allow the smooth operation of frequent flier programmes and can rapidly deal with changes.

However, while CRSs are critical for the success of deregulation, the Commission is concerned that such systems are open to abuse by operators, providing unfair competitive advantage.

Computer systems have become vital to airlines' commercial success. In the first place the CRSs provide a steady revenue stream through booking fees. In 1986, Sabre, the CRS owned by American Airlines, made profits of $107m, representing a return on turnover of 26 per cent.

More important, owners of a CRS can receive incremental revenues if the system is not fairly programmed. This means, for example, that a system could show flights with aircraft changes or stops of one airline – that of the owner – before displaying direct flights of another.

Given the potential for using CRSs anti-competitively, it is not surprising that the European Commission has been carefully watching the development of two systems. They are Amadeus, being developed by a consortium of European airlines led by Lufthansa, Air France, Iberia and SAS, and another called Galileo, led by British Airways, Swissair, KLM Royal Dutch Airlines and Alitalia.

However, the Commission is less apprehensive than it once was as it has set up a number of regulations controlling CRSs. These become effective in January.

The inefficiencies of both Amadeus and Galileo have also helped allay Commission fears – at least for the present.

There are three main problems facing the two systems.

THE EUROPEAN MARKET

They are:

● Overcapacity. It is unclear whether there is room for two systems in Europe. The two consortia were originally formed because of clashes between Lufthansa and British Airways over leadership in a possible joint-project and the difficulties of linking the Unisys computers of the Amadeus group with the IBM machines of the Galileo consortium. Amadeus has since switched to IBM machines but business is volume sensitive, and industry observers are unsure whether there is sufficient volume in Europe to sustain two competing groups.

● Technical difficulties. Both systems have been delayed by difficulties adjusting their US-based software for the European market. Mr John Zeeman, chief executive of Galileo, explains that the computer language used for CRSs, known as transaction processing facility, (TPF), is extremely fast – capable of handling 2,000 messages a second – but is inflexible.

● Management problems. Amadeus is split over three sites. The holding company and marketing division is based in Madrid, while the operations and computing division is in Munich and the development work is undertaken near Nice.

Both have also had personnel difficulties. At Galileo, for example, most of the initial employees were appointed by the airlines and often had little expertise in CRSs. All of the main partners have maintained their own computer systems and most are unwilling to pass on their best employees.

Difficulties in managing the systems have meant a late launch. Galileo, which is now in operation, was about a year late, while Amadeus is not yet running. The company says it should be available in January.

Meanwhile there are fears that the world's CRS industry could be about to consolidate, reducing competition.

There is commercial logic in such consolidation. Since different time zones around the world mean there are different peak periods, there is no reason why US systems – such as Sabre and Apollo – should not be able to handle the volumes handled by systems in Europe and the Pacific rim. And, since the business is volume sensitive, worldwide systems would enjoy the benefits of economies of scale.

Amadeus is understood to be in the final stages of negotiations with at least one US CRS company, and possibly both Sabre and Worldspan, the CRS joint-venture between Delta Airlines, Northwest Airlines and Trans World Airlines.

The CRS companies will have to tread carefully, however. If massive systems emerge there could be increased pressure from regulators both in the US and Europe to separate airlines from CRSs.

UK reiterates its opposition to abolition of EC border checks

By David Buchan in Brussels

THE UK government has strongly reiterated its opposition to abolishing border checks within the European Community, despite the fact that it is nearing agreement with its EC partners to harmonise controls on the external EC frontier with the rest of the world.

At an informal weekend meeting of interior ministers of the Twelve in Naples, Mr David Waddington, the British Home Secretary, told his EC counterparts that "we shall continue to maintain controls at our national frontiers for the purpose of controlling immigration from third countries".

David Waddington

Mr Waddington's tough words, which set Britain at odds with a majority of EC states wanting a free travel zone after 1992, come in the context of negotiations among the Twelve on an "external frontiers convention".

This convention, which the Community has hoped to agree by the end of this year, aims to reinforce and harmonise entry and visa procedures at the Community's external rim. Britain sees merit in this convention standing on its own, and has been an active negotiating partner.

But increasingly, other EC states – and particularly the five countries which have signed their own Schengen free travel agreement, and Italy which is due to join Schengen later this month – have been pushing for the external frontier accord to contain a commitment to abolishing internal border checks between them.

For them, the only rationale for beefing external controls up is to remove internal border checks.

Britain, as Mr Waddington made very clear, baulks at such a link. Indeed the UK has never accepted that the free movement provisions of the Single European Act apply to nationals of third countries, only to EC citizens.

The UK is the most vociferous in wanting to retain controls but it is not the only one.

Ireland, as another island, has qualms about abolishing internal EC controls, though it already has a common travel zone with the UK. Greece, geographically distant from the rest of the EC, poses difficulties, while Denmark has the problem of already being in a common passport zone with its fellow Nordic countries.

Yugoslav prime minister tests regional strength

YUGOSLAVIA Prime Minister Ante Markovic, facing tough opposition to his reform policies, hit the campaign trail yesterday to test his strength for the first time in regional elections, **Reuter reports from Skopje.**

Mr Markovic, whose drive to make the country's crippled economy more market-oriented is running into serious obstacles, told an election rally in the Macedonian capital of Skopje that only he could lead the country out of the crisis.

"None of them are capable of leading this country and its people," he said.

He also said his opponents were power hungry and played up nationalist passions while lacking programmes.

Mr Markovic, who took office in May last year, formed his own party, the Alliance of Reformist Forces (ARF), last July as the Communist party collapsed amid ideological and nationalist conflicts.

The communists were ousted from power in Markovic's home republic of Croatia and neighbouring Slovenia last spring and were replaced by right of centre governments.

The ARF is fielding candidates in parliamentary elections in the remaining four republics – Macedonia, Serbia, Bosnia-Herzegovina and Montenegro – in November and December.

In an effort to win votes in next Sunday's elections for the 120 seats in the Macedonian parliament, he told the rally that the ARF had become the country's leading political force.

The ARF is competing with 19 parties in Macedonia for 1.4m votes.

Inflation and rivalry among the republics are among the key issues. Markovic brought inflation down to almost zero from 65 per cent last December but it hit 8.1 per cent again in October.

Serbia, the biggest republic, has criticised Mr Markovic for favouring its rivals, Croatia and Slovenia. But he said he hoped to win in Serbia and to form an ARF government. Serbia and other republics resent Mr Markovic running on their home ground after bypassing his own republic.

NEWS IN BRIEF

Pyrenees controls may be abolished

Spain and France are likely to dismantle their frontier controls early next year following a Spanish decision to seek full membership soon of the five-nation Schengen open-border group, Peter Bruce writes from Madrid.

Mr Francisco Fernández Ordóñez, the Spanish foreign minister, said at the weekend that Madrid would join France, Germany and the Benelux countries "in 1991, probably in the first quarter."

Spain faced has had to overcome a moral dilemma over entering the Schengen group because its members are required to apply visa restrictions to an agreed 115 countries.

These include both Colombia and the Dominican Republic, two former Spanish colonies, neither of which Madrid wanted to offend before the celebrations of the 500th anniversary of Columbus's discovery of the Americas in 1992.

Brundtland in office

Norwegian Prime Minister Gro Harlem Brundtland took office at the weekend vowing to revive stalled talks on ties with the EC Reuter reports from Oslo. Mrs Brundtland, forming her third minority government, unveiled a cabinet of 19, including nine women. "Jobs, the environment and children" would be top domestic priorities, she said. Talks with Brussels "will go from a dead halt to constructive, forward-looking work", Mrs Brundtland, 51, told a news conference.

Gorbachev will visit Germany

Soviet President Mikhail Gorbachev will begin a three-day visit to Germany on November 9, the first anniversary of the opening of the Berlin Wall, German government sources said yesterday, Reuter reports from Bonn.

The newspaper Welt am Sonntag, which is close to Chancellor Helmut Kohl's Christian Democrats, said Gorbachev would meet Kohl in Bonn and at his home in Oggersheim in the state of Rhineland-Palatinate.

Warsaw Pact agrees arms distribution

By Nicholas Denton in Budapest

THE SIX Warsaw Pact countries signed at the weekend an agreement on the allocation of tanks, artillery pieces and other conventional weapons among them, clearing the last big obstacle to a treaty on arms reduction in Europe.

The Soviet Union will be allotted 13,150 tanks – less than it had originally held out for – of the 20,000 allowed for the Warsaw Pact under the draft terms of the all-Europe treaty.

The allocation of ceilings for conventional arms to the six east European countries was particularly important because the USSR's former satellites feared Soviet military predominance more than that of Nato.

The countries of the Conference of Security and Co-operation in Europe (CSCE), which include the US and Canada, are to sign a conventional arms reduction treaty in Paris on November 19. The main threat to the schedule had been that Warsaw Pact countries would not be able to agree among themselves.

Saturday's settlement may be one of the last meaningful acts of the disintegrating eastern European military bloc.

There was a "growing general agreement" that the Pact's military wing would be done away with by the end of 1991, said Mr Geza Jeszenszky, the Hungarian foreign minister, who hosted the meeting. He added the hope that the new European security system, probably an institutional form of the CSCE, would be set up by the spring of 1992, making the Warsaw Pact superfluous.

Mr Krzysztof Skubiszewski, the Polish foreign minister, was only slightly more cautious, saying that "the military structure will and should disappear" by the end of 1991 or the beginning of 1992.

Polish coal miners plan two-hour token stoppage

By Christopher Bobinski in Warsaw

THE POLISH government today faces its first big clash with the country's once all-powerful coal miners, who are due to stage a two-hour token stoppage this morning.

The strike is also the first expressly called by the Solidarity trade union, which until now has sought to avoid confrontations with a government it helped to bring to power.

Coal is the country's most important energy source and is still a principal export commodity. However, despite a 17.4 per cent fall in output, which reached 112.4m tonnes after the first nine months of this year, stocks at the power stations are high, weakening the miners' position.

Their wages, which traditionally were ahead of other industrial groups, have slipped drastically in the past 10 months and news of a proposed pension law removing miners' retirement privileges has raised tensions.

The miners are demanding new pay systems which would, in effect, increase wages as well as remove price controls on coal. This would allow at least some mines to make a profit.

The industry is set to make a loss of about 12,500bn zlotys (£676m) this year, of which 9,600bn zlotys has been budgeted for by the government.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

	Sep.'90	Aug.'90	Jul'90	Sep.'89	% change over previous year
US	117.3	116.9	116.8	114.6	+2.3%
Japan	126.2	127.4	127.0	119.8	+5.5%
W Germany	119.4	118.9	118.1	112.6	+6.0%
	Aug.'90	Jul.'90	Jun'90	Aug.'89	
UK	109.0	109.6	113.4	111.0	−1.8%
France	114.3	114.3	111.9	111.6	+2.4%
	Jul.'90	Jun.'90	May'90	Jul.'89	
Italy	117.6	118.4	119.0	119.1	−1.2%

Source (except US and Japan): Eurostat

هكذا من الاصل

WHAT DOES ANGLO AMERICAN SHARE WITH THE GREATER FLAMINGO?

Salt. And soda ash, an essential ingredient in the making of glass, steel and paper.

Both are found in abundance in the Sua Pan in north-east Botswana, home to vast breeding colonies of the Greater Flamingo.

And now home to an exciting new project that will bring prosperity, growth and development to the people of the area. And provide a secure sanctuary for the Greater Flamingo.

The future of Southern Africa lies in partnership. Between people. Between private initiative and democratic governments. And between people and their environment.

Soda Ash Botswana, a £190 million project in a corner of the Sua Pan, meets all these criteria. It is the fruit of a partnership between the Botswana government, AECI, De Beers and the Anglo American Corporation of South Africa.

From 1991, under the technical leadership of AECI, it will begin to produce 300,000 tons of soda ash a year, making Southern Africa self-sufficient in this vital product.

But Soda Ash Botswana has not forgotten that Sua Pan is also the site of another, more ancient, partnership. For when the rains come these desert wastes provide a vital link in the lifecycle of Southern Africa's flamingo population.

And so Soda Ash Botswana buried power lines which could be hazardous to birds in flight.

It appointed a former director of the Wildlife and Nature Parks of Botswana to monitor the project's environmental impact.

It established that by bringing brine to the surface the project may attract even more flamingos to its small corner of Sua Pan.

And it is creating a game sanctuary near the plant to ensure they will be safe.

It takes financial resources, expertise and foresight to invest in a partnership on this scale.

Partnership that is the key to a better future for all Southern Africa.

Thinking ahead. Thinking big. As well as taking care of the detail.

It's what we do. And what we do best.

AAC

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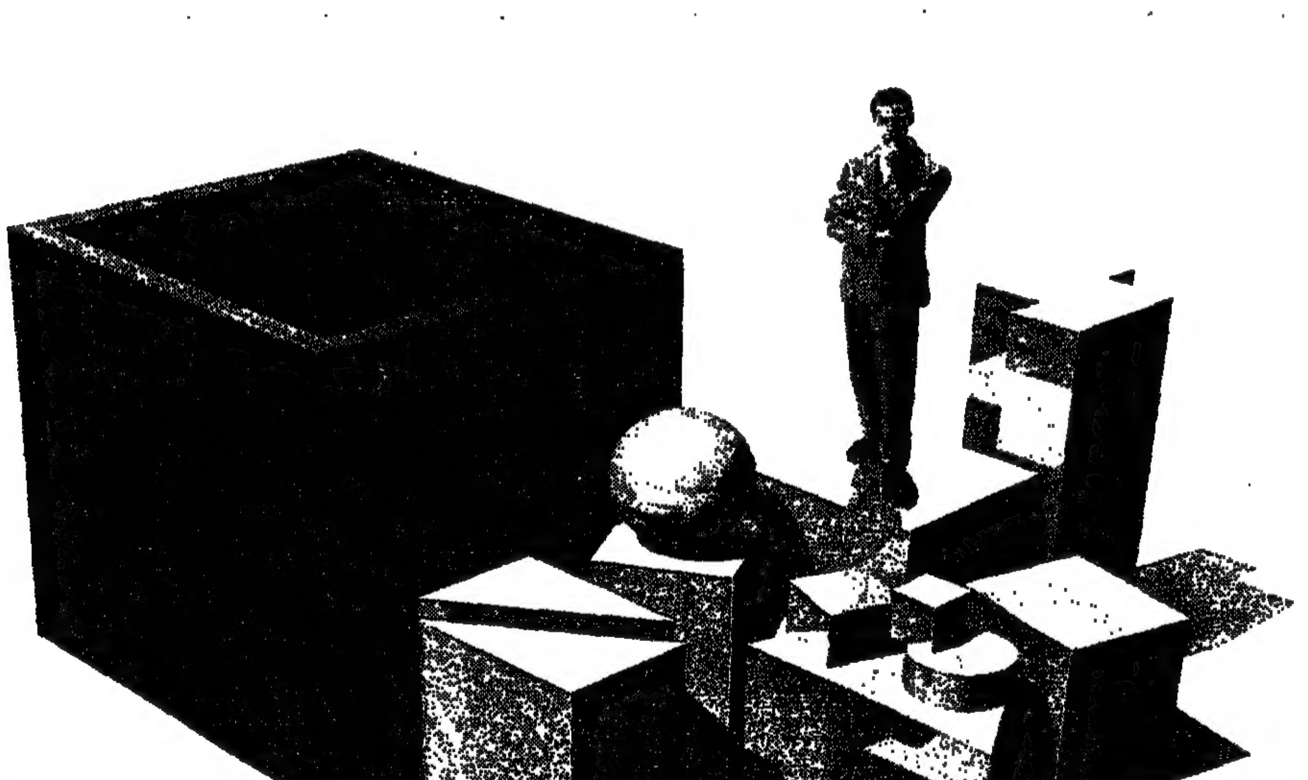

UK NEWS — TORIES IN TURMOIL

POLITICAL REACTION

Tebbit says letter from Heseltine was 'unwise'

MR MICHAEL Heseltine's criticism of the prime minister attracted scorn from several Tory backbenchers yesterday but – in spite of jibes from opposition parties – received little comment from ministers.

The former defence secretary's letter was described as "unwise" by Mr Norman Tebbit, an ex-cabinet minister who is a confidant of Mrs Margaret Thatcher. Other MPs said it was "cowardly".

Their comments underlined the conviction of many Tories that Mr Heseltine's carefully timed interventions are proving increasingly damaging.

Ministers kept direct comment on Mr Heseltine's letter to a minimum at the weekend, conscious that further comments could trigger speculation over other contenders to the Tory party leadership. Instead they stressed the party's pro-European credentials.

But Mr Gerald Kaufman, Labour's foreign affairs spokesman, said Mr Heseltine's letter signalled "war to the death" inside the Conservative party and amounted to an outright challenge to the prime minister. "Mr Heseltine is implicitly acknowledging the inevitability of a Conservative defeat in the approaching general election," he said.

Mr Paddy Ashdown, the Liberal Democrat leader, said the government was now in total confusion and disarray. "This period of muddle and confusion must be ended as quickly as possible. That can only happen by removing her.

"The only question now is whether he [Mr Heseltine] has the courage to press his case – whether he'll light the blue touch paper and run."

Mr Norman Tebbit, speaking on TV-am, accused Mr Heseltine of dealing only with Mrs Thatcher's style and of failing to address the main issue of the "pushy" demands from Britain's European partners. "I think that Michael was unwise to write the letter in those terms at this time."

Mr Tebbit added: "I regret that he did it. I am sure that he did it from the best of motives but it misses the main point, and I think that is a pity."

He was joined in his attack by Mr George Gardiner, MP for Reigate, who said: "If he [Mr Heseltine] wants to argue the federalist European cause then fair enough, but he cannot be allowed to pull the party apart in the process."

Mr Gardiner accused Mr Heseltine, now on a tour of the Middle East, of exploiting Sir Geoffrey Howe's resignation "to inject his own dose of poison".

"The letter dodges round the question whether he intends to challenge Margaret for the leadership or not, then he clears off to Amman for four days, leaving his parliamentary colleagues to clear up the mess," he said.

Those pressing for a change of leadership yesterday included Mr Tony Marlow, MP for Northampton North. Speaking on BBC Television, he said that within the party there was a feeling "that perhaps something should be done".

He said: "I would rather that things would happen with dignity . . . but pressure will build up and I believe that if nothing else happens, there will be an election and somebody will put their hat in the ring."

Mr Francis Maude, financial secretary to the Treasury, said the vast majority of the party was happy with the government's approach to Europe.

Mr Michael Portillo, local government minister, said: "The majority of the British people are concerned that vital decisions about our future should be taken in the British parliament and that the pound should remain our currency for as long as our people wish it to be so.

"In this, the prime minister, far from being isolated, represents the mainstream of public opinion."

Ralph Atkins

TEXT OF LETTER

'Crisis is one of confidence'

The full text of Mr Michael Heseltine's letter to Mr Peter Owen, chairman of the Henley Conservative Association:

Dear Peter,

Geoffrey Howe's resignation is a profound loss for this country and for the Conservative party.

He is the architect who designed the blueprint for economic recovery and with great personal and political courage laid the foundations of the economic resurgence which was the key to the government's success in the first half of the 1980s. I have known him as a friend and colleague for well over 30 years and beyond his natural concern for the quality of political life, he is a man of an unflinching integrity.

His departure from political office impoverishes us all.

No amount of rationalisation or special pleading can disguise what people across the country know in their bones. His departure is not just a sadness and a loss; it is potentially a crisis. We must understand that and cope with it quickly. The crisis is one of confidence. It must be quickly restored.

There is only one way to preside over and lead a democratic political party, and that is to pay proper regard to the myriad of opinions and, indeed, prejudices that go to make up its support. When the Labour party forgot this and lurched violently away from the mainstream, they paid a devastating price. The Conservatives gained 10 years of virtually unchallenged power.

There is a danger now that the heady assumptions of permanence which those 10 years have delivered to our party could dim the awareness of how easy it would be for the same mistake to propel us from office and from control over this nation's destiny for the decade ahead. We cannot countenance the sacrifice of Tory seats needlessly lost in spite of the effort to win and nurture them.

'Success goes to those who take the forward-looking decisions and stride ahead'

The issue, of course, is Europe. Not our membership itself, which is not in doubt, but how we handle the challenge posed by Europe's development and, crucially, our attitude and response to the increasing pace of progress towards the goals which parliament accepted when we signed the Treaty of Rome and the Single European Act.

Any impartial observer will recognise that the present cabinet represents all shades of opinion within the party. They are talented and well-intentioned. I am certain that if they all consider, discuss and agree collectively a text which spells out our policy, the overwhelming majority of us will follow the lead that they give.

I listened to the prime minister's statement to the House on Tuesday about Europe, and having stayed only to hear the quite inadequate response by the leader of the opposition, I left, reassured that there was a way forward that would unite the party behind a policy of practical common sense.

It was the product of cabinet government, discussed, analysed, considered, accepted by those key ministers with the day-to-day responsibility for the policies involved. Much the same happened with the communiqué at the end of the Rome summit.

But something goes wrong between the agreed statement on the one hand and its amplification on the other. Perhaps we're all guilty of trying to add a gloss, a nuance that fits our particular convictions and prejudices. Blow is then matched by counterblow, rhetoric by hyperbole, each raising of the temperature by yet another rejoinder. That way lies trouble.

The Conservative attitude – that of the mainstream of the party – is in my view exemplary. Tories are practical people, looking for a way forward, aware of the past and rightly cautious for the future.

They are neither bigots nor visionaries. They are anxious to do the best for themselves and their children. But they know enough of British history to know that in every century success goes to those who in the end take the forward-looking decisions and stride ahead.

Europe is a minefield of latent prejudices and deep-felt emotions. But it is a minefield that has to be crossed because, if Britain is to matter tomorrow, we cannot be left behind today. Forward lies some risk, certainly, but the alternative is isolation and loneliness.

And in Europe the prospect beckons of handing on an inheritance for future generations that they will accept with gratitude. We must on no account be left offering only excuses for our failure to rise to this challenge.

There are many audiences listening to this debate. It is in truth impossible to appeal to them all. So skilled political leadership demands judgment as to where to strike the balance. I believe the collective wisdom of the cabinet can find exactly that balanced judgment which is the great strength of the Tory party. If decisions continue to be taken or imposed that do not carry this collective endorsement, the stresses will continue to show and could be our undoing.

If, as a consequence, the Tory party suffers in the short term, it will be Britain that suffers in the long term.

I left the government in 1986 because there was no such cabinet analysis of the problems about Europe which seemed to me then – and seem to me now – important. Nigel Lawson was to follow in 1989 for exactly the same reasons. And now Geoffrey Howe.

None of us individually matter that much in the context of our party's history, and even less in that of our country. But what does matter profoundly is that the Tory party should remember that its essential appeal is the appeal of a nation united. Unity is about people, their attitudes towards each other and their ability to work alongside each other to a common purpose.

It is about the legitimate ambitions of both rich and poor. It makes no distinction between the entitlements of one part of our nation and another. It is in its heart tolerant, and in its head reasonable.

I see no reason why our innate good sense cannot find such a unity over the issue of Europe. Indeed, I go further. If the Conservative party today has not within itself the will to find that unity, then the divisiveness that will flow will consign us to the self-same wilderness in which the left of British politics has for so long aimlessly wandered.

In seeking this unity, precision of language will require discipline and restraint. You cannot at one moment suggest that the Europe we are building inevitably means the loss of nation sovereignty and then argue that the French and the Germans are holding up reform of the agricultural system. Either they are sovereign or they are not. And, self-evidently, they are.

You cannot praise the Germans for the role they have played in the Nato alliance for 40 years and then imply that they are fighting for some cause different to our own. You cannot pretend that the Americans want us to stand apart, an island offshore to Europe, when every American president advises us to become more deeply involved. You cannot suggest that our European allies will be able to force upon us policies which we reject, unless you show me the means with which they could do such a thing.

You cannot scorn the disciplines of European economic management without at least a glance at our levels of inflation, interest rates and economic performance, which do not bear comparison with the achievements of our leading European friends.

You cannot sneer at the sophistication of European institutions, which we have created in nearly 50 years of peace, without acknowledging that we have twice in this century sent a generation of young people to die because of our inability to achieve the level of co-operation which today makes war in western Europe unthinkable.

In the end we Tories know which side we are on; we know we must reach for the world of tomorrow, which is with our partners in Europe. The cabinet has an urgent duty to chart for us a course which we can all follow.

Michael

Recession in construction threatens 100,000 jobs

By Andrew Taylor

ABOUT 100,000 British construction workers could lose their jobs by the end of next year because of a recession in orders and lower contract prices, according to a workload survey by the Building Employers Confederation.

The survey published today says the fall in enquiries for new work during July, August and September was the largest for a decade. Almost two thirds of 600 companies questioned last month expected workloads to fall over the next 12 months.

Already 50,000 jobs look like being lost by the end of this year with at least a similar number at risk next year, the confederation warns.

It says lower interest rates following Britain's entry into the European exchange rate mechanism (ERM) are unlikely to promote a recovery.

"Due to the largest stock of unsold housing, currently standing at more than 30,000 units, the improvement in sales will not, initially at least, result in a significant increase in private house building," says the survey.

A fall in base interest rates to 12 per cent by the middle of next year would have very little effect on either commercial or industrial building, it says. The commercial sector was primarily suffering as result of insufficient demand for large amounts of office space currently on the market,rather than high interest rates.

"In the industrial sector ERM entry has ruled out the possibility of a windfall depreciation of sterling and has intensified competitive pressures. It will if anything reduce rather than increase investment in the short term.

The Confederation, representing 9,000 members with a combined annual turnover of more than £30bn, is Britain's largest construction employers' organisation.

Mr David Woods, the Confederation's chairman, said the building industry was now experiencing a full blown recession, hitting all sectors of work and small companies in particular and was causing a marked rise in job losses.

SATELLITE BROADCASTING

Television watchdog seeks talks on Sky-BSB merger

By Raymond Snoddy

THE Independent Broadcasting Authority (IBA), Britain's regulatory body for commercial television, will today call for urgent talks with shareholders of British Satellite Broadcasting to obtain details of their plan to merge with Mr Rupert Murdoch's Sky Television.

Mr George Russell, the IBA chairman, said: "We have got fundamental questions to ask a lot of people. There is no easy quick answer to any of this."

Officials at the IBA are angry that no-one was informed of the secret talks between the UK's satellite television rivals until Friday evening, hours before the deal was formally signed.

IBA lawyers are expected to examine whether the deal would put BSB shareholders in breach of their contract with the IBA.

The four main BSB shareholders are Granada, Pearson (publisher of the Financial Times), Reed International and Chargeurs.

The new company British Sky Broadcasting, trading as Sky Television, plans to broadcast simultaneously on both the BSB satellites and on Sky's normal satellite, Astra. But after an interim period transmission would be solely on Astra. Those who bought BSB Squarials would have them swapped for Astra aerials.

Mr Andrew Knight, executive chairman of News International, said yesterday Sky was only planning to go on the BSB satellite "because the BSB shareholders asked us to be in it temporarily while they sorted out the situation with the IBA."

It is likely that if the IBA rules that the new merged system cannot be broadcast on frequencies regulated by the Authority then the service will be run on the Astra satellite without a period of transition.

The actual licence to broadcast is held not by the BSB shareholders but British Satellite Broadcasting.

A statement from the companies on Saturday said they had merged their activities into a single operation and details of the new joint five channel service, including two film channels would come in a few days.

The Takeover Panel has ruled that minority shareholders holding a total of about 4 per cent in Sky – D.C.Thomson, Ferranti and Ladbroke – should be made a cash offer for their shares set by independent valuation.

Lord Thomson, former chairman of the IBA, said the deal should be referred to the Monopolies and Mergers Commission.

Opposition Labour politicians emphasised yesterday that a Labour Government would ask the MMC to look at Mr Murdoch's newspaper and television interests.

Mr Murdoch said the deal gave satellite television in Britain "an infinitely greater chance of success." Mr Murdoch said there would be early losses as the two sets of costs were put together while revenues were low.

"As the numbers (of viewers) build up it should be able to pass go within a couple of years. Now this is likely to be a very profitable venture," Mr Murdoch said.

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Employers likely to criticise government policy on Europe

By Charles Leadbeater, Industrial Editor

THE British government's commitment to European economic and monetary union is expected to be criticised today by British business leaders attending the annual conference of the Confederation of British Industry, the employer's organisation.

The conference, which comes only a week after a CBI survey found that business confidence was at its lowest ebb for 10 years, is almost certain to voice criticisms of government policy not just on Europe, but also on economic policy, public sector pay and the government's commitment to combatting inflation.

The role of the Department of Trade and Industry in helping to develop a competitive manufacturing base will also come in for close scrutiny.

It is clear that business leaders are concerned that the turmoil within the government could further damage business prospects by throwing in doubt Britain's commitment to European integration.

Mr John Banham, the CBI's director general, said there was a serious problem that Britain was not seen to be fully committed to Europe. "Our commitment to a single currency should not be in question," he said.

The CBI's briefing paper for the conference on Europe is unequivocal that "only when a single currency is established will business reap the full benefits of economic and monetary union."

Mr Banham avoided directly criticising the government, stressing the CBI's support for Mr John Major's "hard ECU" plan and praising Mrs Thatcher for raising questions about the practicability and implementation of the European Commission's 'plans.

The CBI's criticisms of government policy will not be confined to Europe.

A debate on UK economic policy on Tuesday will air disquiet over the squeeze on industry from high interest rates and vent criticisms of what the CBI regards as the government's inflationary own goals.

Analysis, Page 8; Leader on employers, Page 16

Fears of recession test Tories' industrial support

No one at this week's CBI conference in Glasgow will be talking about soft landings, reports Michael Cassell

MR Richard Pickard's business, thriving for 16 years from its base in Grantham, Lincolnshire, not far from the corner shop of Mrs Margaret Thatcher's childhood, is in serious danger.

The future of his company, squeezed by recession and stifled by punitive interest rates, is in doubt. He fears the worst: even his house could be on the line.

Grantham, he says, is literally shutting up shop. "Thirty shops in the town centre have gone out of business this year. Their owners are giving up, closing the doors, losing their homes.

"The government is the management team running Great Britain. Any other management in such a mess would get the sack. I voted for them but now I can't wait to get them out."

If the worst happens to Mr Pickard, the collapse of his small business manufacturing and servicing tyre-fitting machines will barely register among the growing number of redundancies and closures.

The Confederation of British Industry, which begins its annual conference in Glasgow today, has reported the biggest drop in business confidence in a decade. It says a "serious recession" is gathering pace.

In spite of its reputation for representing the "archbishops" of industry, half of the CBI's membership is drawn from companies employing fewer than 200 people. Many member companies share Mr Pickard's fears and will voice them this week.

The Labour Party claims that, with industry's interest-rate bill likely to reach £24bn this year, compared with £6bn in 1979, the number of businesses winding up is nearly 75 per cent higher than a year ago. Mr John Quinton, chairman of Barclays, says more companies are facing collapse than at any time he can remember.

While Mr John Major, the chancellor, teeters on the brink of publicly conceding that Britain is in recession, industry is asking: "What happened to the promised soft landing?"

Mr Gordon Brown, the shadow trade secretary, claims that businessmen are deeply disenchanted to find themselves facing problems they were encouraged to believe had been solved. Disenchantment, he admits, does not necessarily imply defection to Labour.

But Mr Brown adds: "There is a feeling that ministers have little to say to industry and that no one is speaking up for it within government."

He alleges that the Tories, in an orgy of short-termism, have failed to help create a sound manufacturing base from which Britain can take on world markets.

His familiar criticisms are brushed aside by ministers, who insist that revolutionary changes have taken place in British industry, which will now be far better able to cope with the current downturn.

But while they dismiss Mr Brown's attacks, the alienation of previously enthusiastic Conservative supporters such as Mr Pickard might ring a few alarm bells.

The government has hit a rough patch in its relationships with a business community whose traditional political allegiances are under pressure. Fresh frustration arising out of the government's split on Europe is unlikely to help.

As company profits fall and criticism increases, donations to the party are thought to be at their lowest level since Mrs Thatcher won power.

The approach of a general election, with the chance of a Labour victory, could well strengthen old loyalties and help fill party coffers. In the meantime, there are some harsh words for ministers to digest.

Mr John Harris, chairman of the policy unit at the National Federation of Self-Employed and Small Businesses, accuses the government of betraying companies which have been forced to swallow "a cocktail of disasters", including the uniform business rate and high interest rates.

At the other end of the corporate scale, large groups previously cocooned in record levels of profitability are again feeling exposed.

Mr Peter Drew, chairman of Taylor Woodrow, the construction group which recently reported its first drop in profits for 30 years, sympathises with homebuyers and small businesses. But he says "there is no political alternative" to the Tory party, which last year received £150,000 from his group.

"The Tories have done a better job of managing the economy than most governments this century. But their public relations are appalling; as politicians they do not appear to be terribly good," he concedes.

Sir Eric Pountain, an ardent Thatcher supporter and chairman of Tarmac, where profits fell last year by one third and directors took large pay cuts, thinks the government could improve its relationships with industry. "It does not help having continual changes among industry ministers," he said.

Lord Weinstock, chairman of General Electric Company, echoes the sentiment, claiming that continuity and constructive dialogue are hard to achieve when ministers are replaced "every three minutes".

There is widespread concern about the future for British manufacturing industry. Mr Michael Frye, chairman of B. Elliott, the engineering group, says the next decade must see a shift to manufacturing: "The industrial climate in Britain remains hostile. We will not be able to survive on insurance and lollipops."

Mr Michael Montague, chairman of Yale and Valor, the security products and home appliances group, is sympathetic to Labour and claims that Britain is almost alone in leaving manufacturing industry entirely to the free market: "The word 'intervention' has become sullied. The industrialist is a diminishing species. Those who survive do so despite the government, not because of it."

Lord Gregson, a Labour peer and a director of Fairey Group, the engineering business, says the government must change its attitude towards the manufacturing sector.

"For a start, we need investment allowances to help revitalise the industrial base," Lord Gregson added.

There is widespread approval, however, of Britain's entry of the exchange rate mechanism of the European Monetary System, although there is continuing debate about the level at which sterling joined and the time it will take businesses to appreciate new pressures to cut costs and improve productivity.

Mr Rocco Forte, chief executive of Trusthouse Forte, the hotels and catering group which also helps fund the Tories, welcomes ERM entry but says many companies have yet to realise that it is not an easy option.

According to Mr Martin Taylor, a director of Hanson: "If there are any lessons to be learned from recent events, they are for industry and not the government. The consequences of ERM entry for management will take time to work through."

In spite of a few spats with the government, Mr John Banham, director-general of the CBI, denies that relationships are at all frosty. He also rejects suggestions that the CBI is growing less concerned at the prospect of a Labour government: "We don't look forward to more intervention and, indeed, are not planning on it."

He has a delicate balancing act to perform, supporting the government's economic strategy while ensuring that the mounting concerns of the CBI's members are clearly heard.

Mr Banham says interest rates went too high and should have come down more quickly, while some inflation was self-inflicted. But he stresses: "Let's keep things in perspective. It is nonsense to suggest we have achieved nothing and are back where we started.

"Trade union leaders may bewail the fact that we no longer make rubber plimsolls. If they want their members to work for coolie wages, let them go right ahead."

Mr Banham knows small businesses are being badly mauled. But company failures, he emphasises, are one sign of a dynamic economy: "The more successful an economy, the higher the number of business failures. It is part of the process."

The observation will provide little comfort for Mr Pickard in Grantham – the constituency of Mr Norman Hogg. On Friday, Mr Hogg became the latest industry minister to move on.

Trevor Humphries

Big money: John Banham at a trade exhibition in Glasgow ahead of the CBI conference

Swiss to invest £170m in Grimsby

By Clive Cookson

CIBA-GEIGY, the Swiss chemicals group, is to invest £170m over the next three years to build its manufacturing site at Grimsby on Humberside into "one of Europe's leading chemical production centres".

The company will build two factories and extend an existing plant on the 230-acre site beside the Humber estuary. They will make specialised chemicals for Ciba-Geigy's pharmaceutical and agrochemical businesses worldwide.

Dr Werner Dittes, managing director of Ciba-Geigy Chemicals, said the output of the site would double to about £100m a year and the workforce would increase from 480 to 680.

The investment is the largest that Ciba-Geigy, the world's seventh-biggest chemicals group, has made in a single manufacturing site outside its home base of Switzerland.

Dr Dittes said one reason why the company chose Grimsby was that past experience had shown the local authorities, workforce and contractors to have a positive and flexible attitude which enabled projects to go ahead quickly. He said it would take three years between deciding to build a new plant at Grimsby and starting production. "In Switzerland or the US it would take six years," he said.

More than £30m of the £170m Grimsby investment would be

John Fraser: investment reflects confidence in UK

devoted to environmental protection, the company said. Its main feature would be a £17m biological treatment plant, in which micro-organisms break down and destroy traces of organic chemicals in factory effluents. Waste chemicals that were not suitable for bio-treatment would be extracted and sent to outside incineration plants. The remaining effluent would be discharged through a long pipeline into the Humber.

Dr Ian Laing, the company's director of health, safety and environmental protection, said the Grimsby plant would meet Ciba-Geigy's worldwide environmental standards, which are based on Swiss and German regulations and are well in advance of UK regulations.

Mr John Fraser, chairman and chief executive of Ciba-Geigy in the UK, said the company saw the Grimsby expansion as a long-term investment and was not put off by gloomy economic forecasts.

The investment reflected the parent group's favourable view of the UK's political and economic stability throughout the 1980s, he added.

"We're still trading on that goodwill today," he said. "But I'm concerned that the UK is more and more being seen as isolationist about Europe."

ERM entry is seen as boost to optimism

By Edward Balls

BUSINESS confidence in prospects for the UK economy appears to have improved following Britain's entry into the European Exchange Rate Mechanism, the Institute of Directors says in its latest opinion survey, published today. It adds that expectations are still for lower output, profits and investment.

The proportion of directors feeling more optimistic about prospects for the UK economy, compared with six months earlier, rose from 8 per cent in August to 24 per cent in October.

Of 126 directors questioned before ERM entry, only 7 per cent were more optimistic. However, this figure rose to 51 per cent of a different sample interviewed after Britain had joined the ERM.

Most directors remained less optimistic in October, in spite of that improvement. Only 60 per cent thought their own company was doing well or fairly well, the lowest level for more than a year. A decline in the volume of business is expected by 41 per cent of respondents, compared with 24 per cent a year ago. Insufficient demand is the main cause of concern among 47 per cent of directors, against 38 per cent in June.

This survey underscores the emerging picture of a rapidly slowing UK economy in the second half of this year. Last week's industrial trends survey from the Confederation of British Industry suggested that business optimism had fallen to its lowest level for 10 years.

However, the IoD survey shows that the slowdown is not affecting all businesses equally. An upward trend in business volumes is expected by 40 per cent of directors.

Almost half of directors reported that the trend of their profits was lower in the past six months than in the same period last year.

Opinion Poll. IoD, 116 Pall Mall, London SW1Y 5ED.

Slow spending rise ahead

CONSUMER SPENDING will continue to grow slowly in 1991, according to a forecast published today.

The overall level of consumer confidence remains low compared with previous years, but is holding roughly stable, it says.

A report on demand for carpets, shows home sales falling since early 1989. It expects a 5 per cent drop in carpet sales in 1990.

Consumer Spending Forecasts. Staniland Hall Associates. Alderbury House, Upton Park, Slough SL1B 2UJ. £125.

Sony praise for engineers

By Edward Balls

INSUFFICIENT emphasis on manufacturing and engineering skills are to blame for Britain's relative industrial decline, according to Mr Akio Morita, the founder and chairman of Sony, the electronics company.

Interviewed on the Channel Four programme Answering Back, Mr Morita identified manufacturing industry as "the real base of the economy" and criticised British business for concentrating its efforts on the growing financial services industry at the expense of investment in manufacturing.

He also criticised the European habit of undervaluing the engineering profession and identified this as a further reason for Britain's poor economic performance.

"Respecting engineers is one key to building up strong industry," he said in the interview, broadcast yesterday.

Mr Morita stressed the importance of having overseas research and development teams as well as production facilities.

Japanese innovation could not be relied on to maintain Sony's competitive edge. "I want to have knowledge and also brains from all over the world," he said.

Sony UK has a research and development facility in Basingstoke in addition to its production operations located in Britain.

Mr Morita stressed that being British is no bar to promotion within Sony, and the managing director of Sony UK is British. Asked if there would be a western chairman of Sony within 20 years, Mr Morita replied: "I hope so."

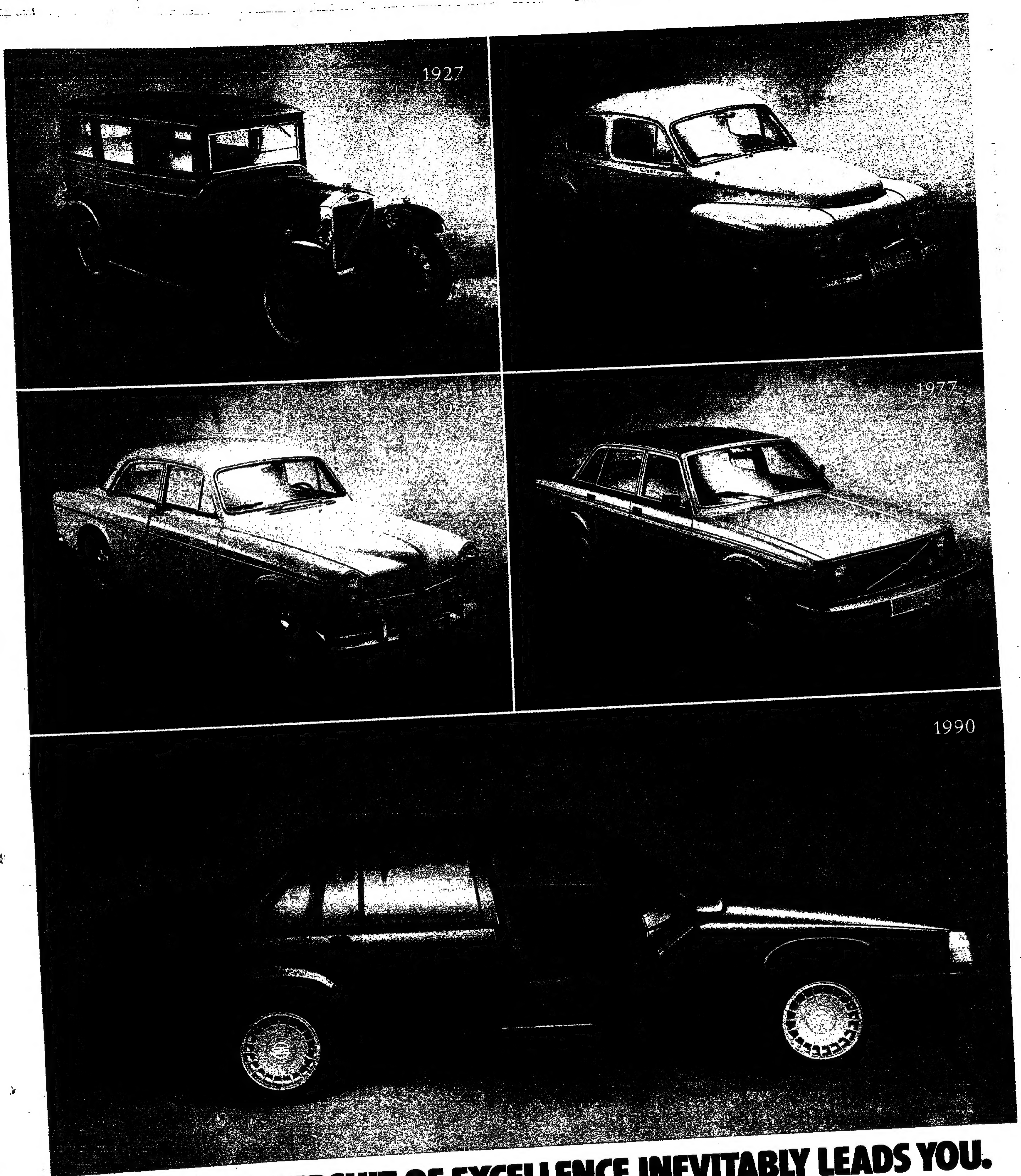
In a recent book, The Japan That Can Say No, written with Japanese politician Mr Shintaro Ishihara, Mr Morita launched a sweeping attack both on US attitudes to Japan and on the US's own economic and industrial record. The book was greeted with outrage by many US politicians, industrialists and academics.

Bank to relax Kuwaiti freeze

THE Bank of England will soon relax part of its freeze on Kuwaiti assets to make it easier for refugees to use their UK bank accounts, writes **David Lascelles.**

Any Kuwaitis who have taken up residence in other countries since the Iraqi invasion will now be exempt from the restrictions. The freeze will still apply to companies.

Currently, Kuwaitis may only draw a limited amount of money to meet specified needs.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UK NEWS

Review sought on fees for police services

By Alan Pike, Social Affairs Correspondent

THE POSSIBILITY of police forces imposing fees for non-emergency duties is raised by the Audit Commission, the local government watchdog, in a report published today.

"It must be right to provide basic emergency services for free, including response to well-intentioned 999 calls," the commission says. "But a badly installed automatic burglar alarm imposing a heavy burden on scarce policing resources raises different considerations."

The commission calls for the Home Office, chief constables and police authorities to reconsider and clarify the boundaries between normal police duties and chargeable services.

It says a debate about the boundaries of the "core public role of police forces" would be valuable at a time when the structure of policing and the scope for contracting out law and order services were under discussion.

The report poses the question of whether police forces should provide a "catch-all service backstopping every other agency" or should become more discriminating about offering non-urgent assistance.

"Patrol of high streets is clearly a police function, but are different issues raised by private retail parks, shopping malls and private residential roads?" asks the report.

The government has in recent years been trying to encourage better value for money in the police service.

Police authorities already impose charges for some special services, like policing inside football grounds, but these form a relatively small proportion of income. They raised about £70m, or 2.5 per cent of net expenditure, in English and Welsh provincial forces in 1989-90. The report says that a more efficient approach to charging would generate more income. Some forces are "simply more alert than others to the opportunities for charging".

Control and charge? The police could present a bill in some circumstances

In many areas sporting events receive "significant covert subsidies in the form of undercharging for private duty by police forces". The report estimates that the annual subsidy to football clubs as a result of undercharging by police forces exceeds £2m.

It suggests that, even without radically altering the range of services for which forces charge, a 25 per cent increase in income is possible in many forces.

At present, income per officer varies between forces from less than £300 to more than £3,000 a year. The commission says there is a were need for more national guidance.

"One county force devotes over 30 man-years of officers' time annually to one football league club, a race meeting and an annual pop festival at an annual cost approaching £1m. Only one tenth of these costs is recovered through charges on the promoters," says the report.

Charges levied by another force policing an annual motorcycle race meeting did not even pay for the meals of the officers on duty.

Staff from the commission, which is responsible for auditing local government and health services, will take up points raised in the report with individual police forces.

Taking Care of the Coppers, Audit Commission, HMSO, £5

Threat of a price war sends fear through the travel trade

David Churchill reports on steep decline in sales

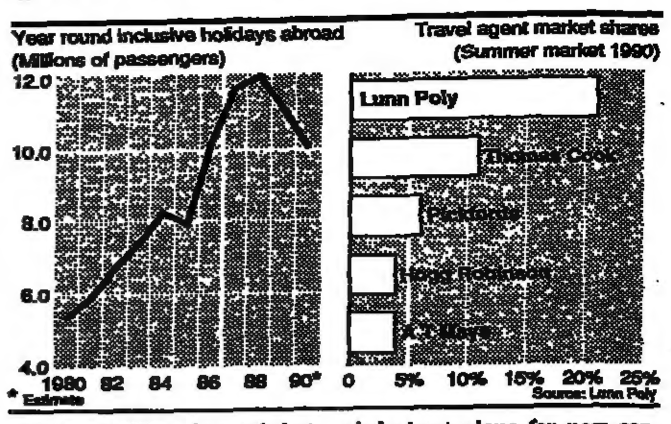
BRITAIN'S tour operators and travel agents may be forced to start cutting the prices of package holidays in the next few weeks in order to increase bookings for next summer.

The threat of a price war among travel companies comes after a sharp fall in bookings for next summer. Bookings are estimated to be at least 20 per cent down on the same time last year when sales fell heavily as a result of rising interest rates.

This year, market demand has also been hit by uncertainty over the Gulf and by rising inflation. Travel agents also believe that high interest rates are still deterring consumers from booking holidays. They say that the recent 1 per cent cut in interest rates gave bookings an initial boost which then fell away.

The prospects for price cuts to stimulate sales will be among the main items on the agenda for travel agents and tour operators at the Association of British Travel Agents' conference which opens today in Budapest.

The conference is being held at a time when the travel industry is under the most intense pressure in Abta's 40-year history. The trade not only faces falling demand, but also the prospect of imposing hefty surcharges as a result of the recent rise in aviation fuel prices.



A number of travel companies are understood to be facing cash flow difficulties because bookings are so slow. Last month saw the collapse of Exchange Travel, one of the top 10 travel agencies. Its slide into receivership, along with several other travel agency failures this year, has affected the holiday plans of more than 300,000 people.

Its collapse is also likely to stretch the resources of Abta, the industry's main trade association, which has guaranteed that no consumer will lose money from Exchange's failure. That could lead Abta to impose a levy on all its members to pay off Exchange's debts.

About 200 travel agents have gone out of business so far this year, with four travel agencies closing last week.

Mr David Epstein, Abta's director-general, believes that the prospects are not all gloomy for the travel trade. "There have been failures and I am not happy with that, but people are still queuing up to join Abta," he said.

The travel trade is also worried about plans for new consumer protection measures being initiated by the European Commission. These may increase costs and remove much of the self-regulatory power that Abta now enjoys. Few in the trade want travel regulated by either Whitehall or Brussels.

The immediate concern among travel agents and tour operators, however, will be the impact of any worsening in the Gulf Crisis. A survey carried out last week by Lunn Poly, the largest chain of travel agents, found that only six per cent of consumers had abandoned their holiday plans as a result of the Gulf Crisis, while 10 per cent had changed their holiday destination away from the Middle East or eastern Mediterranean.

If these findings were spread across the whole travel trade, it would mean that some 600,000 consumers have decided against booking a holiday and more than a million have changed their destination. Mr Ian Smith, Lunn Poly's managing director, said: "The number of people travelling abroad in 1990 has fallen but, compared with other industries, the travel industry has weathered the storm fairly well."

NatWest aims to reduce damage to environment

By David Lascelles, Banking Editor

NATIONAL Westminster Bank is to conduct an audit of its operations to find ways of limiting the impact of its branch network on the environment.

The two-year exercise will look for ways of reducing the use of harmful or wasteful products, increasing energy efficiency, and improving maintenance of equipment and buildings.

The audit will be conducted with the help of Coopers & Lybrand Deloitte, the accountancy firm. Mr Tom Frost, the bank's chief executive, said the cost would be more than recouped by savings from greater efficiency.

NatWest, which has the largest bank network in the UK, has more than 3,000 branches and employs 110,000 people.

It already recycles 160 tons of paper a week. It is in the process of converting its vehicles to lead-free petrol and it intends to fit its cars with catalytic converters by January 1992.

NatWest's move reflects growing awareness within the UK service industries about the environmental impact of their operations.

Unlike manufacturing industries, where damage is caused through dirty factories or harmful products, service industries measure the impact mainly through energy efficiency and use of their most basic commodity, paper.

Midland Bank, which uses more than 2,000 different paper items, is experimenting with ways of expanding use of recycled paper. It is also reviewing biodegradable plastics for the hundreds of millions of coin bags it uses each year.

Barclays Bank, the UK's largest clearing bank, is also drawing up a set of environmental policies.

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NOTICE IS HEREBY GIVEN, pursuant to Section 48 of the Insolvency Act 1986, that a Meeting of Creditors of the above named company will be held at 43 Temple Row, Birmingham, B2 5JT on Thursday 8 November 1990 at 11.00 o'clock in the forenoon for the purpose of complying with the provisions of Sections 48(2) and 49(1) of the said Act.

The business of the Meeting is to have laid before it a copy of the Joint Administrative Receivers' report as to the events leading up to their appointment, the disposal or proposed disposal of the company's property, the amounts payable to the Debenture Holder, preferential Creditors and other Creditors, and, if thought fit, the appointment of a Creditors' Committee.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the Meeting.

A person will be entitled to vote only if he has submitted to me at 43 Temple Row, Birmingham, B2 5JT, in writing, not later than 12 noon on Wednesday 7 November 1990, details of the debts claimed to be due to him, such claim having being admitted.

Dated this 24th Day of October 1990

David J Corney
Joint Administrative Receiver

Proxies to be used at the meeting must be lodged with the Joint Administrative Receivers at 43 Temple Row Birmingham, B2 5JT not later than 12 noon on Wednesday 7 November.

TARKANEW LIMITED T/A EAGLE EXPRESS (JOINT ADMINISTRATIVE RECEIVERS APPOINTED)

NOTICE IS HEREBY GIVEN, pursuant to Section 48 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above named company will be held at 43 Temple Row, Birmingham on Wednesday 14 November 1990 at 10.30 am for the purposes of having laid before it the report prepared by the Joint Administrative receivers in accordance with the said section and, if thought fit, appointing a Committee.

Creditors whose claims are wholly secured are not entitled to attend or vote at the meeting. Creditors who are partly secured may only vote in respect of the balance of the amount due to them after deducting the value of the security as estimated by them. A creditor in respect of a debt due on, or secured by, a bill of exchange or promissory note must treat the liability of any person who is liable on the bill antecedently to the company as a security held by him (unless that other person is subject to a bankruptcy order or in liquidation).

Creditors wishing to vote at the meeting must lodge a written statement of their claims with us at Cork Gully, 43 Temple Row, Birmingham, B2 5JT no later than 12.00 noon on 13 November 1990. Forms of proxy are enclosed which, if intended to be used, must also be lodged with us by that time.

DATED this 30 day of October 1990

John F Powell
Joint Administrative Receiver

UK NEWS – TORIES IN TURMOIL

SIR LEON BRITTAN

Call to end isolation in Emu discussions

SIR LEON BRITTAN, vice-president of the European Commission, yesterday proposed that a British decision on the next stage of economic and monetary union should be postponed until after the general election.

A delay would allow Mrs Margaret Thatcher's anxieties to be reconciled with the desire of other European Community leaders to move swiftly towards a single currency, he said.

Meanwhile, Britain could take an active role in December's inter-governmental conference in Rome.

The former cabinet minister warned that it would be foolish for the British government to ignore the pressure in Europe for greater integration.

"The desire to get ahead fast with economic and monetary union is felt very strongly in the European Community and anyone in this country who operates on a different basis is kidding themselves," Sir Leon said.

Britain was isolated in Rome a week ago when the other EC members set 1994 as a starting date for stage two of Emu.

Speaking on BBC Television, Sir Leon said that if Britain took a constructive part in discussing details of the next stage of Emu, the rest of the EC would be prepared to await Britain's decision.

"Other countries would be quite prepared to say to Britain: 'OK, you make up your mind nearer the time – 1993 if you like – whether to join or not, so long as the scheme is agreed for the community as a whole.'

"The advantage of that is that it would allow time in this country for the debate to evolve, for people to see the advantages of economic and monetary union and the disadvantages of staying out of it."

Sir Leon repeated his belief that if Britain acknowledged the hard Ecu plan "would and should" lead to Emu, then the country would be treated far more seriously by other EC members.

Ralph Atkins

HESELTINE'S OPTIONS

Dealing with a difficult matter of timing

Potential candidates: Douglas Hurd, backed by younger ministers; John Major and Chris Patten – two who aim high

MR MICHAEL HESELTINE faces the most important decision of his turbulent political career. He will have just one opportunity to fulfil his fierce ambition to replace Mrs Margaret Thatcher in Downing Street. He has to judge whether to try to seize it now or wait until after the general election.

The evidence from this weekend's events is that, for all his reputation as an impetuous gambler, the 57-year-old former defence minister has yet to make up his mind.

His scathing, though coded, condemnation of Mrs Thatcher and subsequent dismissal of speculation that he is preparing a direct challenge were designed to keep both options open. It is far from certain that he can. Three weeks ago Mr Heseltine was contemplating 18 or so more months of the unrelenting campaigning among fellow Tory MPs which began when he stormed out of the cabinet in January 1986.

After his bitter row with Mrs Thatcher over the future of Westland – a dispute which like the recent convulsions had its roots in differences over Europe – he decided that he would defy political gravity.

He set himself the goal of becoming the first Tory politician since Winston Churchill to return from the backbenches to lead the party. Everything that this self-made millionaire has done since has been directed to that end.

Until last week's resignation of Sir Geoffrey Howe, Mr Heseltine believed that his best chance would come after, rather than before, the general election which is due by mid-1992.

There had been a period earlier this year – when Labour's 25-point lead in opinion polls provoked a crisis of confidence in the government – that Mr Heseltine thought the opening might come sooner.

The crisis, however, seemed to pass. Iraq's invasion of Kuwait in August was followed by the despatch of British forces to the Gulf. Mr Heseltine, like most of his colleagues at Westminster, decided that Mrs Thatcher's position was secure until after the general election.

He went back to playing the long game. His judgment was simple. The party could expect only a narrow election victory. It might face defeat. Mrs Thatcher would stay on for, at most, a year or two after the election. The party would judge Mr Heseltine as the best hope of retaining or regaining power.

The re-opening of the divisions over Europe in the wake of the Rome summit and Sir Geoffrey's resignation, however, have revived the possibility of a leadership fight later this month. Mr Heseltine cannot afford not be part of the equation.

However, he has to make the finest of political calculations. If there is a contest now, he must be certain of victory. Equally, he cannot risk being branded as disloyal by being cited as the cause of what might turn into a civil war. Even many of his enemies concede that if the 371 Tory MPs could wish away their present leader and replace her without fuss then a majority would vote for Mr Heseltine.

That assessment is based not on a backlash against the prime minister or on a spontaneous groundswell of support for Mr Heseltine's policies on Europe or the economy.

It is a much simpler issue. Scores of Tory MPs see their seats as under threat. Their judgment – and it is by no means a stable one – is that the risk of such a catastrophe would be reduced, if not removed, if Mr Heseltine were leader.

He has nurtured this reputation as a "winner" with four years of the most determined political campaigning ever seen in Britain. No Tory MP seeking a high-profile speaker for his or her annual constituency dinner has been turned down. Mr Heseltine regularly spends three or four days evenings a week addressing the party faithful. The activists love him. The local MP who basks in the reflected glory is reminded of his guest's standing in the party.

The speeches meanwhile have been interspersed with foreign trips, books and lectures to provide Mr Heseltine with his own political manifesto. It is a platform which carefully blends traditional One-Nation Toryism with a commitment to the markets. It combines a passionate belief that Britain's future lies in Europe with a strong appeal to national self-interest.

It is designed to appear distinctive rather than disloyal, appealing to the party's right as well as to his natural allies on the centre and left.

Thus support for monetary union or for a common European defence policy is framed in terms of enhancing rather than diminishing Britain's control over its destiny. The state intervention he proposes in the domestic economy would run with rather than against the grain of market forces.

His letter at the weekend was designed to add to the ferment within Tory ranks without committing its author to a direct challenge. It was scathing about Mrs Thatcher's running of the cabinet and about her opposition to closer European integration. But it did not mention her by name.

The atmosphere of intrigue and conspiracy, however, has not persuaded many Tory MPs that a suitably "heavyweight" challenger will emerge to draw others into the ring.

Sir Geoffrey is said by friends to remain adamant that he will not try to oust Mrs Thatcher. Potential "stalking-horse" candidates against a prime minister who is said to be as determined as ever to remain in Downing Street might not attract much more support than Sir Anthony Meyer did last year.

As one senior minister put it yesterday: "Michael [Heseltine] wants to be seen as the one who pulls us out of the ditch. But he can only do that if he first makes sure that we are well and truly stuck in it."

If Mr Heseltine challenges Mrs Thatcher directly he cannot be certain of winning. It was clear yesterday that he will face charges of disloyalty for provoking further turmoil.

In spite of their visible unease over Mrs Thatcher's approach to Europe, the self-interest of a majority in the cabinet leave them also opposed to a leadership battle.

Some believe that, whatever the outcome, a contest would so divide the party that it would be impossible for the government to recover. Others calculate that their own careers would be threatened by a change of leader.

The younger generation with ambitions to lead the party – among them Mr John Major, the chancellor, and Mr Chris Patten, the environment secretary – see their best opportunity after an election victory under Mrs Thatcher. If a contest was forced now they would back Mr Douglas Hurd, the foreign secretary.

Mr Heseltine's hope must be that another shock – perhaps delivered by this week's Bradford by-election – will render such reckonings academic and that panic among Tory MPs will drive them to find a new leader.

He cannot, however, try too hard to make that happen.

Philip Stephens

CABINET MUSICAL CHAIRS

The giddy whirl of change at the top of Great Britain plc

SINCE Mrs Thatcher began calling the tune, no game of musical chairs has been played at such a frenzied pace as that in the cabinet room at 10 Downing Street.

The longest-playing members of the game are Mr Tom King, defence secretary, who has been involved since 1983; Mr Cecil Parkinson, transport secretary, who joined the merry-go-round earlier than anyone else in 1981 before he was forced into a four-year break from 1983 to 1987 for infringing the rules of political behaviour; and Mr Douglas Hurd, foreign secretary, who has been in circulation since 1984.

Mr Malcolm Rifkind holds the record tenure, with four years as Scottish secretary, followed by Lord Mackay, who has been sitting on the Woolsack as Lord Chancellor since 1987.

Mr Tom King had three jobs in his first year in the cabinet – six months as environment secretary and four months as transport secretary before moving to employment. Two years there were followed by four years in Northern Ireland before he arrived at the defence department last year.

Mr Parkinson has turned his talents to a similarly varied list of occupations, beginning with the esoteric demands of paymaster-general and chancellor of the Duchy of Lancaster. Four months at trade and industry in 1983 were followed by four years in the political wilderness. He returned as energy secretary in 1987 and became transport secretary in 1989.

The combative Mr Kenneth Clarke, in taking on education after the health service, will have notched up four different jobs in five years. He was previously paymaster-general and chancellor of the Duchy of Lancaster.

Mr John MacGregor has had four jobs in three years – moving from the Treasury to agriculture in 1987, to education in 1989, and now turning from testing seven-year-olds to handling the more unruly occupants of the Westminster benches as leader of the Commons.

Mr John Wakeham, who spent four years as government chief whip, has had three posts in three years in the cabinet – Lord Privy Seal, leader of the Commons, and energy secretary.

Mr Kenneth Baker has switched smoothly into three slots in four years - environment, education and chancellor of the Duchy of Lancaster, where the ancient duties allow time for moonlighting as chairman of the Conservative party.

Mr John Major, who in 1987 came in as chief secretary to the Treasury, was given three months at the Foreign Office in 1989 before being abruptly switched to the Treasury after Mr Nigel Lawson's resignation.

Only Mrs Thatcher has remained constant amid the giddy and accelerating whirl of change at the top of Great Britain plc.

Ten of those currently around the Cabinet table have been there for 16 months or less, ushered in at one of the six ministerial reshuffles since July 1989. They are Messrs Peter Brooke (Northern Ireland), John Gummer (agriculture), Michael Howard (employment), David Hunt (Wales), Norman Lamont (chief secretary to the Treasury), Peter Lilley (trade and industry), Tony Newton (social security), Christopher Patten (environment), David Waddington (home office), and now William Waldegrave (health).

Few cabinet members have been in their present jobs for more than two years; and most have been called on to play many parts in their time. Can there be any wonder that Conservative stock has slumped? With such a turnover of senior executives in any company, analysts would long since have been downgrading their profit forecasts.

Philip Rawstorne

British Airways

In training to deliver an ambitious promise

Simon Holberton explains how market research is integral to introducing cabin crew to the ideas behind the airline's relaunch of its economy service

Assuming British Airways has got its marketing right, the airline's £70m relaunch of its economy class service will succeed or fail on the airline's ability to deliver what it promises.

BA is promising to turn a hitherto unpleasant experience – economy class air travel – into a more enjoyable one. It will try to counter the feeling many passengers have of being "second class citizens" when they travel in its main cabin.

It has developed a new product, built around the theme of the "traveller" and consisting of – for BA – new product features. The deeper message is, however, that BA is an airline which "recognises your individual needs and you as a person".

This "promise", therefore, hinges to a great extent on how the airline treats its passengers when it encounters them on the telephone, at check-in desks, in the air and when they land at their destination.

World Traveller

"Any successful brand is a mixture of product features and the people who deliver the service," says Pat Rock, a cabin crew manager with responsibility for about 1,000 cabin crew who fly BA's intercontinental routes. "We can match the competition on product features, but service is about people and people skills.

"It is important that the crew is seen by passengers as relaxed and approachable. The crew has to be visible outside the meal routines. The flight is more than just food and drink for the passengers; it's an experience. We're trying to build in much more customer contact; to make the crew a lot more conscious that they should be talking to the passengers."

For the past two years BA has been testing some of the planned on-board product features. Passengers who have travelled with the airline from London to New York, Boston, Los Angeles and Atlanta have already experienced elements of the new service, such as new menus, give-a-ways and the like.

These trials have been important not only for the customer feedback the airline received – was the choice of a pasta main meal instead of just the chicken or beef option popular? – but also to see how the cabin crew responded to the new ideas and routines and if they were deliverable in practice.

Aside from these trials, BA is telling its cabin crews about the economy relaunch through a series of what it calls "down-route forums". With 6,000 cabin crew to brief on the relaunch it was impossible to organise all the training events at Heathrow or Gatwick so it was decided to take the training to crews at major international junctions, such as Los Angeles, Bombay, Hong Kong, and Johannesburg. These training events will be supplemented by handbooks, information centres at Heathrow and Gatwick, and in-house newspapers.

For those of the airline's staff not directly involved in the relaunch BA came up with a novel approach to the age-old problem of how to tell its staff what was happening.

It constructed an eye-catching giant-sized sports bag inside which was an audio-visual presentation of the key features of the relaunch together with physical examples of the new product features economy passengers will receive. This "bag" was stationed at the airline's head office at Heathrow but also moved to other sites. Staff were asked to keep what they saw confidential.

At a two-hour training session in Bombay just over two weeks ago, Rock led such a session for 22 crew. A conference room at the Oberoi Hotel in Bombay had been converted imaginatively to give the appearance of the interior of a marquee.

The training session consisted of a video and slide presentation of key features of the new economy class product. It attempted, using actors – notably Andrew Sachs of Fawlty Towers fame – to introduce the crew to the types of passenger who travel in the main cabin.

These were: the businessman who wants to be refreshed when he arrives at his destination; the grandmother visiting her grandchildren and a little concerned about the flight ahead; the holiday-maker who wants the fun to start straight away; the fearful flyer who wants an upgrade.

Crews were given financial information about the relaunch and the business reasons for it. On long-haul flights passengers pay an average of £560 a time ("most have paid for themselves and they have made a sacrifice"); half of them have flown long haul before but 35 per cent have not ("we take travel as a matter of routine, but for passengers it is an exciting experience").

The presentations – attendance at which was voluntary – contained other messages for the crew. "We are very good at much of what we do but the competition is getting stronger. Now we have a chance to change ourselves; to refresh ourselves," Rock told them. She showed them a slide of customer satisfaction levels. The level peaked at around 70 per cent in 1987 and now stood at around 60 per cent. The message was clear; standards are slipping.

One of the most commonly used phrases by BA managers is "research shows..."; at the down-route forum for crew the jargon was no different. Claire Phillips, a fleet director, presented the crew with a ranking of the "emotional expectations of passengers", viz. to enjoy themselves; to trust the crew; to feel at home; have their individuality recognised; to feel valued and respected; and be served by people who possess a flexible approach.

Euro Traveller

"If we meet these expectations we'll enjoy the flight as much as the passengers," she told the crew. "We can use our own flair and creativity; it is we who make the difference."

Julie Morley, manager cabin service staff, gave details of the new product features. She took pains to point out that they had been proven in tests and could be delivered with little change to the work-load of cabin crew. The audience was beginning to exhibit a fair degree of scepticism.

For Rock, the relaunch is an important issue for cabin services management. "We all feel some ownership of the ideas," she says. "Down-route forums are all run by cabin crew, not management and on a voluntary basis. We look at passenger feedback, but it is equally important to get feedback from the crew about what works and what doesn't."

Lord King, BA's chairman, tries out the new World Traveller seats

And in Bombay that day, feedback she got. Many of the crew noticed that the one thing BA was not changing was the seat pitch, that is, the distance between two seats. A comparison of the things BA offers economy passengers with those of its competitors showed that BA's seat pitch was one of the meanest in the industry.

A senior steward noted that when BA conducts in-flight surveys, seat pitch is one of the things passengers most comment on. One of the product enhancements to go with the relaunch is a new seat which the airline claims is more comfortable than many in the market, but Rock made clear that to change the seat pitch now "would eat into core profit" (an extra two inches of space between seats in economy would cost BA £50m to £100m in lost revenue and engineering costs) and she was able to quote alternative research back at her audience.

"It is not over and done with; we see it as an important issue," she said. "But it rates low as a passenger priority; at least that's what the passengers tell us."

The crew used the forum to raise other problems. The airline didn't provide enough bottled water for passengers; there were too many special meals (meals for people with varied dietary habits); doubts were expressed about the airline's ability to get lists of names of passengers by seat displayed in the galleys; and while they appreciated the benefits of recognising passengers and using their names, the passenger lists often did not specify which form of address a woman wanted used.

The question of stealing was also raised. While the idea of a "props box", containing games for passengers to play and a Polaroid camera to record special moments was seen as a positive step, one steward pointed out that backgammon sets used to be handed out in first class but they were stolen so often that BA had to withdraw them. "We've been through this before," he noted.

But it would be unfair to suggest that the crew was negative in its assessment of the product features and the idea behind the relaunch. Many saw the changes as long overdue and, moreover, ones they had been plugging for some time. And, in any event, as Rock had noted earlier about previous relaunches: "It doesn't just stop when we launch; we'll get continuous feedback from the passengers and crew."

BA's ads come down to earth

Late next month, British Airways will screen a number of television commercials, produced by Saatchi and Saatchi, to publicise its new economy service.

The ideas the advertisements hope to communicate are that BA is about going on holiday, visiting friends and relatives, and that it is an "approachable" airline. The ads aim to induce consumers to make a positive choice for BA when booking leisure travel.

The commercials will be timed to coincide with the period when people begin thinking about and planning their 1991 holiday. Clearly, then, these commercials have an important part to play in creating consumer interest in BA's new economy class product, which will be known as World Traveller and Euro Traveller.

Like the visible part of an iceberg, the advertising campaign is just the tip of a vast and complicated marketing exercise. But getting the advertising right has been one of the main, and unexpected, difficulties the airline has encountered.

Saatchi was briefed in August but it was not until midway through last month that the agency presented a script (the third) which BA was prepared to accept. The script, however, along with story boards (rough visuals of what the finished product will look like) underwent market research but failed.

"For an ad to go to research and be rejected is odd; we thought we had it," says Ian McComas, the BA executive with day-to-day responsibility for the economy relaunch.

The research used was "ad testing", which, in this instance, was through "focus groups". This is a process whereby a group of consumers is shown the proposed advertising material and asked to talk about it. Their responses were analysed to see if what they said was what BA hoped they would say.

This is an essential part of marketing but one that is all too frequently ignored by many British companies. Far too few test their ads. They take too seriously the reaction of the chief executive or his wife; they test-run the ads on a Sunday morning; or, if they do test ads, allow the agency to choose the methodology.

McComas describes ad testing as an insurance policy. "Both ourselves and Saatchi have a great deal of experience in making ads," he says. "But we never get it totally right without talking to the consumer. If we are investing millions of pounds in making the ad then spending a few thousand to check it is a good investment."

BA's market research department oversees ad testing for the company. It hires an independent agency to conduct the interviews, thus removing all suggestion of bias. How about letting Saatchi do the testing? "Most definitely not!" says McComas. "They have created the ad and it contains what we and they believe is optimal. We wouldn't get the lack of bias; it would be impossible."

The ad was tested over two days and four separate groups of people were shown two slightly different versions.

"There were boards showing rough illustrations of the ad, plus a narrative tape," says McComas. "I wanted a sentence about friends and relatives because I thought it would fail without it. Saatchi did not want it.

"So two tapes were produced [only one included a reference to friends and relatives] and shown to two separate focus groups. The research showed that there was not enough about friends and relatives in either version. The agency thought that the symbolism in the ad would communicate all; it didn't."

Back to the drawing board. The fourth attempt did not pass muster either and, after some rather strenuous discussions with the agency, McComas persuaded Saatchi as to what he wanted (greater emphasis on friends and relatives) and what he did not (bare bottoms). Now that these changes have been made he is confident that the proposed ad will pass the testing and shortly go into production.

McComas says the best client/advertising agency relationships are always the ones with conflict in them. "The best ads don't come easily."

Simon Holberton

LEGAL COLUMN

EC suffering from ignorance of market for legal services

By William Bishop and Simon Carne

SOUND policy making must be based on a sophisticated understanding of the market involved. Do we know enough about the market for legal services in Europe to make sound decisions about the regulation of the European legal services industry?

The short answer is that we know very little about the nature of the market for legal services. This ignorance is particularly embarrassing in the European Community today because of the move towards the harmonisation of the laws of member states and especially their regulatory laws.

A feature of all advanced liberal societies is that they are law-dominated. The EC is the extreme case of a community in which law dominates over politics. The Community's existence has evidently provided a significant stimulus to demand for legal services because the Treaty of Rome provides a legally enforceable quasi-constitution for modern Europe.

It is not clear what led to the rise in demand for legal services as the 20th century progressed, however. There has been no substantial study of just what it is that generates that kind of demand. No study has been done to assess the competitiveness or prospects of the legal services industry.

The debate about the regulation of legal professions in member states is, therefore, dominated by interest groups which, through an absence of data, have no sophisticated understanding of the way regulatory processes work.

Competition between different jurisdictions takes place along two distinct dimensions. Different jurisdictions supply different substantive law. They also supply different adjudication services.

It does not follow, however, that a jurisdiction which supplies the superior adjudication services also supplies the superior substantive law. Nor does it follow that the jurisdiction which provides the best adjudication services for commercial interests also provides the best services for its own individual citizens.

The analysis of dispute settlement in different systems depends heavily upon the costs imposed on the parties to a dispute by those systems. One leading US scholar has claimed – although the claim has been disputed – that the German system of civil procedure displays advantages over common law systems in its ability to control the costs of litigation.

On the other hand, it seems that in certain kinds of commercial transactions it is common for companies deliberately to select English law and English adjudication in preference to German law.

They do so because German procedures, so attractive in the case of ordinary household litigants, are not attractive in disputes between large commercial organisations.

The system for settling disputes in this country imposes very serious costs on the loser of a lawsuit. The loser must pay not only his own costs but also those of the winning side. Moreover costs of an action in the English high court are very high. So an individual one-time litigant faces severe risks in deciding whether to settle out

Surprisingly little is known of even the rudimentary facts of the comparative economics of adjudication systems

of court for an inadequate offer, or to go to trial.

Research has confirmed the prediction of economic theory, that repeat players – that is, large commercial organisations such as insurance firms – extract a "risk premium" from a one-time player, such as a claimant under a third-party insurance policy. To that extent the English system is heavily biased against the consumer in litigation that pits a consumer against a large organisation.

On the other hand, there is little doubt that in many commercial matters English law has performed outstandingly in producing highly sophisticated law of the kind required for the smooth functioning of an international financial centre such as London.

Surprisingly little is known about even the rudimentary facts of the comparative economics of adjudication systems. For example, we do not know what the total spending (private plus public) is on the purchase of legal services in the most prominent member states.

It is hardly possible, without some serious empirical work, to answer even the simple question of whether the German taxpayer or the English taxpayer or the French taxpayer pays the more per capita for supporting his judicial system. Nor have we any idea about the comparative data on total volume of dispute settlement in the different member states; or for that matter of the "dark figure": the number of disputes that are settled without any recourse to litigation.

We do, however, know a few, simple, striking facts. For example, we know that the ratio of legal practitioners to judges in England is more than 100 to 1. Whereas in the old West Germany it was less than 3 to 1. Plainly, the state spends relatively more and the citizen relatively less per dispute in Germany.

From this example it is plain that differences in the organisation of the legal system can lead to dramatically different demands for privately provided legal services.

In effect, the German state provides an utterly different kind of adjudication service for its citizens from that provided in England. The degree to which matters are delegated to legal professionals as compared with other groups, be it surveyors, clerks or laymen, also varies considerably.

The inquisitorial role of the courts in both private litigation and in administrative matters fundamentally affects the demand for legal services. Inquisitorial adjudication has the consequence, among other things, that there is less duplication in fact-finding.

One would expect, and economics would predict, a higher volume of litigation in Germany and France. What is clear is that far more of those citizens who find themselves involved in disputes will be able to afford their day in court.

It would be interesting also to make comparisons with data from the US which, like England, has a non-inquisitorial system of adjudication but unlike England, does not require the losing side to pay the costs of the winner.

In shipping arbitration, New York has mounted a serious challenge to London. So far London has succeeded in maintaining its leading position in that market.

Paris has mounted a serious challenge to London in commercial arbitration. One of the most interesting aspects of this challenge was that it seems to have led, openly and nakedly, to laws being supplied to the international market by states on a competitive basis.

This is the simplest explanation of the passage of the Arbitration Act in England. It was felt in legal circles in London – and the feeling was conveyed to the government – that there was a need to compete with the French arbitration statute. This Act has given commercial users what they wanted: arbitration secure from judicial intervention.

We know that several member states have been concerned about the lack of competitiveness of their own legal services industries, compared with

It is plain that the state must spend relatively more, and the citizen relatively less, per legal dispute in Germany

those of the US and the UK, in internationally mobile markets for legal services.

Five years ago, France commissioned a study on the place of French jurists in international competition.

The concern in France at that time arose from one simple fact: US firms appeared to be invading – successfully – the market for legal services in Europe in general and Paris in particular.

It is a striking fact that US firms were able to enter Brussels and provide significant services in EEC law which European lawyers were evidently not able to provide. That fact alone suggests that there is something flawed in the organisation of the legal services industry in western Europe.

William Bishop and Simon Carne are principals in Putnam, Hayes & Bartlett, Economic and Management Counsel, in the firm's litigation, consulting and expert evidence practice.

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THE WEEK AHEAD

ECONOMICS

Elections may cloud the horizon

THE FIRST week of the month is, traditionally, a slow time for observers of the economic scene. This will be some relief after last week's surprises such as the resignation of Sir Geoffrey Howe from the British government and the rise in the German Lombard rate.

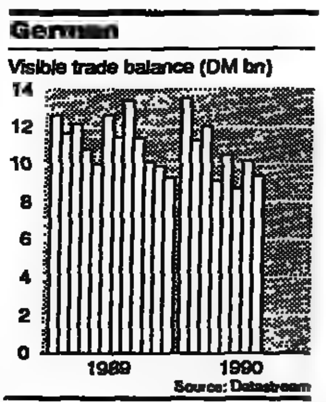
However, the results of the US congressional, state and local elections tomorrow, and the UK by-elections in Bradford North and Bootle on Thursday, may have important implications for the future conduct of economic policy.

Economic performance in the leading countries is becoming increasingly divergent. Britain, the US and France are experiencing various degrees of economic downturn and yearn for lower world interest rates. Germany, by contrast, is more concerned with strong demand and growing domestic inflationary pressures.

Part of Germany's inflation problem is reflected in the trade account which will be published during the week.

Germany

Visible trade balance (DM bn)



Imports were up an annual 5.2 per cent in August while exports were down 2.3 per cent.

The trend has been towards a shrinking trade surplus over the past two years. Although the trade balance is expected to stabilise at DM7.5bn in September, the value of imports is expected to continue rising. In the US, markets will watch out for Friday's producer price figures for September, which may confirm whether the recent rise in consumer price inflation will continue.

In Britain, by contrast, today's credit business and final retail sales figures for September should provide further evidence of an economic slowdown.

The UK parliament reopens on Wednesday with the Queen's speech, announcing the government's legislative intentions over the next year. The Autumn Statement, announcing public spending plans for the forthcoming financial year, could be announced any time from Thursday.

Other events and statistics, with median market forecasts by MMS International, the finance research company, include:

Today: UK, final retail sales for September (up 0.5 per cent), credit business for September, CBI annual conference continues until Tuesday. US, auto sales for October 21-30. Canada, October foreign exchange reserves (down US$300m).

Tomorrow: US, preliminary third-quarter non-farm productivity. Congressional, state and local elections. Germany, October unemployment in September in west (down 20,000) and

Wednesday: US, September consumer credit ($2.5bn), wholesale trade. Australia, 3rd quarter consumer price index (annual 7.1 per cent increase).

Thursday: US, monetary aggregates for week ended 29 October. Australia, October unemployment rate (7.5 per cent).

Friday: US, October producer prices (up 0.7 per cent), ex food and energy (up 0.2 per cent). Canada October unemployment rate (8.6 per cent);

During the week: Germany, September trade balance, September current account (DM 4bn), September manufacturing orders (down 1 per cent), September retail sales in west (annual 9.5 per cent increase).

Edward Balls

UK COMPANIES

HIGH oil prices, thanks to the Gulf crisis, will have greatly inflated the third-quarter earnings British Petroleum and Shell will report on Thursday. However, since the value of these oil stocks will eventually fall, these historic cost earnings will not mean very much.

Netting out stock gains, BP's bottom line may be as low as £60m, compared with £265m a year ago.

BP's accounting procedures have delayed the full impact of the oil price increase, and oil production in both the North Sea and Alaska has been lower. Chemicals and refining earnings should be lower.

Shell will be doing relatively better, with earnings minus stock gains not much different from last year's £667m. The higher oil prices work through faster to Shell's bottom line, and its chemicals business has proved more resilient.

SmithKline Beecham, the international pharmaceutical and consumer products group, is expected to announce the same day third-quarter pre-tax profits of around £215m, compared with £168m for the same period last year.

Associated British Foods, the milling and baking group, should report on Monday interim pre-tax profits of about £122m, up from £111.3m a year earlier.

It is likely to write down the value of its 23.6 per cent holding in Berisford International, taking the provision as an extraordinary item.

UK COMPANIES

TODAY
COMPANY MEETINGS:
Aberdeen Steak Houses, Coventry House, 21, Coventry St., W., 10.00
Specialeyes, The Honourable Artillery Company, Armoury House, City Rd., EC., 12.00
BOARD MEETINGS:
Finals:
Colorgen
Interims:
Associated British Foods
Cook (William)
Ramold
Worth Inv Trust

TOMORROW
COMPANY MEETINGS:
Westpool Investment Trust, Carlton House, 33, Robert Adam House, W., 3.00
BOARD MEETINGS:
Finals:
Wharfedale
Interims:
Comac
GEI Intl
German Inv Trust
German Smaller Companies Inv Trust
Henderson Administration
Rechem Environm'l Services

WEDNESDAY NOVEMBER 7
COMPANY MEETINGS:
Adwest, The Hotel Intercontinental, W., 12.00
Cantors, 164/170, Queens Rd., Sheffield, 12.30
Community Hospitals, Barber-Surgeons Hall, Monkwell Sq., Wood St., EC., 12.00
Cowan, de Groot, Chelsea Hotel, 17, Sloane St., SW., 11.00
Lloyd Thompson, Watermen's Hall, 18, St. Mary-at-Hill, EC., 11.00
Logica, The Royal Institute of British Architects, Portland Place, W., 11.00
North American Gas Investment Trust, Stationers Hall, Ave Maria Lane, EC., 12.30
Osprey Estates, The Theatre, The Mayfair Intercontinental Hotel, Stratton St., W., 12.00
BOARD MEETINGS:
Finals:
Bailey (CH)
Bibby (J)
Drayton Cons Trust
Interims:
Gieves
Sainsbury (J)
Stormgard
Warner Howard

THURSDAY NOVEMBER 8
COMPANY MEETINGS:
BBB Design, 100, Wood St., EC., 12.00
Colroy, Ebbgate House, 2, Swan Lane, EC., 12.00
Interlink Express, The Beaufort Suite, The Savoy Hotel, The Strand, WC., 12.00
Leveraged Opportunity Trust, 11, Devonshire Sq., W., 2.30
Scholes, The Old Rectory, Station Rd., Wilmslow, Cheshire, 12.00
Sinclair (William) Holdings, Firth Rd., Lincoln, 11.00
Tor Investment Trust, City of London Club, 19, Old Broad St., EC., 12.00
BOARD MEETINGS:
Finals:
Bellway
National Home Loans
Interims:
Appleby Westward
Hicking Pentecost
King & Shaxson
Premier Group
Smith St Aubyn
Stanhope Props
Storehouse
Welpac
Yorklyde

FRIDAY NOVEMBER 9
COMPANY MEETINGS:
Beazer, Guildhall, Bath, 12.00
Bellwinch, Hilton National Hotel, Wembley, 12.00
Copson (F), 25, Copthall Ave., EC., 11.00
Walker (Thomas), Midland Hotel, New St., Birmingham, 12.00
BOARD MEETINGS:
Finals:
Bremner
British Empire Sec & Gen Trust
Interims:
Malvern UK Index Trust
Oxford Instruments
Parkland Textile
Unilever

Company meetings are annual general meetings unless otherwise stated.

APPOINTMENTS

British Gas technology manager

■ **Dr Henry J.F. Stroud** has been appointed general manager, technology development, within the global gas business unit, at BRITISH GAS headquarters in London. He will be responsible for transferring technology into the company's operations, and for licensing all British Gas technology. He was manager of the process development division, Midlands research station, and is a director of COGSYS, a joint venture company, of which British Gas is the major shareholder, formed to develop and market real time expert systems.

■ **Mr Andrew Freeman** has been appointed chief executive of ATKINS BROTHERS (HOSIERY), and its principal operating subsidiary, Atkins of Hinckley. He has been a director of subsidiaries of both Coats Viyella and Oakwood. **Mr Paul Newbitt** is shortly to become commercial director. He joins from KPMG Peat Marwick McLintock. Both appointments are initially for three years. **Mr Tom Atkins** has resigned, but remains a director of Atkins of Hinckley, and the resignation of **Mr Michael Atkins** is being discussed. The remaining members of the board retain their posts.

■ NOBLE LOWNDES GROUP has made the following main board changes. **Mr Keith Merrett** *(pictured)* has been appointed development director. He was sales director. **Mr Tom Geoghan**, chief actuary, additionally becomes managing director UK employee benefits. **Mr Ben Carroll** is appointed managing director - personal financial services. **Mr Ken Bulteel** assumes responsibility for group management services. The changes are made in anticipation of the retirement next year of **Mr John McKirdy** and **Mr Stan Gee**, and follow the death of **Mr Arthur Duff**, marketing director.

■ **Mr Douglas Wright** has been appointed operations director of HDA Forgings, part of HAWKER SIDDELEY's aerospace division. He joins from Doncasters Monkbridge where he was managing director.

■ **Mr Brian Stott** has been appointed commercial director of PHILIPS subsidiary Whirlpool (UK). He was sales director of freestanding products.

■ **Mr Robert North** has joined the board of THE BECKENHAM GROUP as group finance director. He was with Newarthill.

■ OCEAN GROUP has appointed **Mr Rodney D.M. Lenthall** as managing director, marine services division. He was managing director of O.I.L. Marine, an offshore support subsidiary.

■ **Mr Paul Brownrigg-Gleeson** has been appointed associate director of marketing on the boards of CAL FUTURES, and CAL Investments.

■ **Mr Eric W. Grove**, chairman, and **Mr Graeme R. McCallum**, managing director of Alfred McAlpine Developments, have been appointed director and non-executive director respectively of ALFRED McALPINE.

■ **Mr Robert Fallowfield** has been promoted from financial controller to financial director of HERON MOTOR GROUP. **Mr Richard Pearson** and **Mr Tony Purslow** have been appointed divisional directors of H.R. Owen.

■ Four additional directors have been appointed to the board of NEWTON INVESTMENT MANAGEMENT: **Mr Jonathan Powell** *(pictured)*, marketing; **Mr Howard Beamfort**, private clients, primarily offshore; **Mr Robert Shelton** and **Mr Iain Stewart**, segregated pension funds. Three additional directors have been appointed at Newton Fund Managers: Mr Powell; **Mr Paul Harwood**, segregated pension funds; and **Mr Nick Kirk**, group finance director.

DIVIDEND & INTEREST PAYMENTS

TODAY
Abingworth 1.5p
Business Technology 1.5p
Credit Natl 13½% Gtd Notes 1993 (Reg) 6.75pc
Do (Br) 6.75pc
Enterprise Oil 6p
Guinness 5.4p
Hepworth 5.5p
Lowe Group 4.7p
Morrison (Wm) Supermarkets 0.35p
Propeller 0.6p
Ransomes 2.05p
Rose 0.5p
Sherwood Computer Servs 1.5p
Venturi Inv Trust 1.3125p
Watmoughs 2.5p

TOMORROW
Brixton Est. 7¾% 1st Mtg Deb Stk 87/92 3.875pc
Cadbury Schweppes 8¼% Uns Ln Stk 94/2004 4.125pc
Cambridge Elect Inds 3.3p
Computer People 2.1p
Courtaulds 6% Cum Red 2nd Pref 2.1p
Do 8½% Uns Ln Stk 94/96 3.25pc
Do 7¼% Uns Ln Stk 94/96 3.625pc
Delta 10¾% Deb Stk 95/99 5.375pc
Fleming Intl High Inc Inv Trust 0.8625p
Tilling (T) 8½% Uns Ln Stk 89/94 4.25pc
Transport Development 3p
Whitbread 7¼% Uns Ln Stk 96/99 3.625pc
Wilson Bowden 2.4p

WEDNESDAY NOVEMBER 7
Albany Inv Trust 1.2p
Assocd British Ports 2.75p
BBA 10% Deb Stk 89/94 5pc
British Petroleum 3.95p
Conversion 9¾% Stk 2003 4.875pc
De Beers Cons Mines Centenary AG Linked Units 8.08825p
Do Centenary AG Linked Units 'S' Shares/ Dld Receipts 5.44p
GKN 8p
Gabicci 2.8p
New Kleinfontein Props 34cts
Peninsular & Oriental Steam Navigation Defd Stk 13.5p
River & Mercantile American Cap & Inc Trust 1.8p
Sinclair Goldsmith 1.5p
Treasury 10½% Conv Stk 1992 5.5pc
United Friendly Insce B Rest Vtg 3.5p
Vickers 3.7p

THURSDAY NOVEMBER 8
Abbey Natl Flg Rate Notes 1990 £189.04
Boddington 2.15p
Cantors 3p
Do. 'A' Non Vtg 3p
Kreditkasse Prim Cap Und FRN $469.58
Community Hospitals 3.3p
Gartmore European Inv Trust 0.825p
Gowrings 2.25p
Hydro-Quebec Flg Rate Notes Sers FV May 2005 $425.98
Libra Bank Subord Flg Rate Notes 1995 $469.56
Logica 2.3p
NatWest Bank Var Rate Cap Notes 2008 $207.84
Nihon Doro Kodan 8⅞% Gtd Bonds 19984.375pc
Nottingham Corp Gas Anns £1.625
Pacific Dunlop 10.5cts
Provident Financial 8p
Ratners 2.4p
Redland Intl Funding 15¾% Gtd Notes 1996 7.8875pc
Richards Group 1.85p
Schroders 4p
Do Non-Vtg 4p
Steel Burrill Jones 4p
Tioxide 11½% Uns Ln Stk 91/98 5.75pc
Wiggins Teape Appleton 3.3p

FRIDAY NOVEMBER 9
APV 2p
American Express 28cts
Ash & Lacy 2.5p
Bentalls 0.8p
Blackwood Hodge 0.25p
British Vita 3.3p
Butler Cox 1.75p
Clifford Foods 4p
Do Non-Vtg 4p
Colorgraphic 2p
Cons Plantations Berhad 4.8sen
Edinburgh Fund Managers 4.5p
Fletcher Challenge 15.5cts
GT Japan Inv Trust 1p
Halifax Bldg Society Flg Rate Loan Notes 1994 £190.30
Henderson Highland Trust 1.3125p
Interlink Express 4.25p
Intl Bank For Reconstruction & Dev 11.5% Ln Stk 2003 5.75pc
Ipeco 1.2p
I & S Optimum Inc Trust 1.7p
Laporte 5.4p
Lopex 2.9p
Macallan-Glenlivet 0.4p
Mid-States 1.5p
Molyneux Estates 0.6p
NCR Corpn 35cts
Natl & Provincial Bldg Society Flg Rate Notes 1999 £381.25
Nu-Swift 8p
Polypipe 2.4p
Primadona 2.5p
Royal Bank of Scotland Flg Rate Notes 2005 £189.63
Royal Insurance 11.25p
Scimitar Worldwide Selection Fund Ptg Red Prf (US Dollar Shs) 33cts
Do (Sterling Shs) 86p
Do (ECU Shs) 0.41ECU
Do (Worldwide Bond Shs) 35cts
Sinclair (William) 4.8p
Standard Chartered Und Prim Cap FRN (Ser 2) $469.58
Tor Inv Trust Cap 3.6p
Do Inc 12p
Wassall 0.9p

SATURDAY NOVEMBER 10
Bemrose Corpn 4.3p
Billam (J) 1.64p
Investors Capital Trust 4% Deb Stk Red 2pc
Merivale Moore 7.75p
Peninsular & Oriental Steam Navigation US$ Cnv Bonds 1st Sers 1989 3pc
Scottish Eastern Inv Trust 4% Perp Deb Stk 2pc
Do 4% Deb Stk (Red) 2pc
Walker (Thomas) 1.22p

SUNDAY NOVEMBER 11
Alliance Trust 4½% Deb Stk Red After 15/5/58 2.25pc
Forth Ports Authority 3¾% Funded Debt 1.875pc
Glasgow Corpn Gas 9% Ann Stock (Perp) 4.5pc
Do Waterworks Funded Debt 4% 2pc
Do Waterworks Funded Debt 3½% 1.75pc
Do Gas 6¾% Ann Stock (Perp) 3.375pc
Do 3½% Irrd Stock 1.75pc
North Housing Assocn 8¾% Gtd Ln Stk 2037 4.375pc
SD-Scicon 6.5% Cnv Cum Red Prf 3.25p
Scottish Mortgage & Trust 4½% Irrd Deb Stk 2.25pc
Second Alliance Trust 4½% Deb Stk (1956) 2.25pc
Securities Trust of Scotland 7% Deb Stk 88/93 3.5pc

CONSTRUCTION CONTRACTS

£58m Teesside plan

Enron Power Construction has confirmed that the civils, mechanical and electrical package for what is believed to be the world's largest gas fired power station has been awarded to **WIMPEY CONSTRUCTION**.

The £58m contract involves the installation of infrastructure and plant for the 1725 MW facility at ICI's Wilton chemical complex on Teesside.

This amount includes a provision against various options on which Enron will make a final decision within the next three months.

Enron Power Construction, part of the US-based Enron Corporation, is both client and project manager for the facility - the first of its kind in the UK.

Wimpey will begin work on site early in November. During the ensuing 25 months, the company's construction activities will provide jobs for at least 450 people in the north east of England.

Initially, work on the site will be mostly confined to civil engineering activities, preparing the foundations and the reinforced concrete slabs on which the plant will ultimately sit.

In addition, large amounts of structural steel will be installed to support the network of pipes which run around the plant - ranging in diameter from 10mm to 2.5 metres.

Recharge dam

Wimpey Alawi has been awarded a £2m contract to build a ground water recharge dam in Oman.

The plan is being financed by the Ministry of Agriculture and Fisheries in order to recharge the natural water systems in the Sur region of the country.

Although the region has no rainy season, it is prone to flash flooding all year round. The composite reinforced concrete and earth core dam with an extensive gabion mattress will span 500 metres of a wadi bed in order to contain the resulting flood tides. The scheme is due for completion in July 1991.

Hounslow offices complex

COSTAIN CONSTRUCTION, a subsidiary of Costain E & C, has been awarded a £67m contract for the construction of "New Square at Bedfont Lakes", an office park development at Hounslow, Middlesex.

"New Square at Bedfont Lakes" is a joint venture by MEPC and IBM United Kingdom, covering 18 acres. It forms part of the 250-acre development being undertaken by The Rutland Group at Bedfont Lakes and is due to be completed in 1992.

The development comprises seven office buildings surrounding a central formal square that will be landscaped and planted with trees. On the south side there will be three three-storey buildings, one of 110,000 sq ft and two of 37,000 sq ft, which will be occupied by IBM.

Steel-framed with precast concrete floors, the offices will be finished with curtain walling. The main building will have a large central atrium with scenic lifts. Facilities in this building include an auditorium, cafeteria and central computer room. All of the buildings provide general office facilities and all have raised floors and suspended ceilings.

On the northern side of the square, a further four buildings, providing 158,000 sq ft of office space, have been designed by Edward Cullinan. The buildings, ranging from 18,000 sq ft to 60,000 sq ft, are accessed and serviced independently and may be let as separate units.

These buildings have piled foundations and reinforced concrete frames. Structural steel columns and trusses will support the pitched zinc clad roof. The landscaping of the central square will shield the main car parking facility which will provide spaces for 1630 cars.

Offices redevelopment

The **HALL & TAWSE GROUP** has been awarded an £8.5m contract as part of a redevelopment project on Teesside - earmarked as priority by the prime minister.

The Teesside site received national publicity when Mrs Margaret Thatcher visited the area immediately after the election and announced that the site should be brought back to life.

Mr David Murray, the lead developer, through Murray BS - a joint venture company formed by Murray International Holdings and the Bank of Scotland in partnership with Teesside Development Coroporation - is to build the Riverside Court office development.

Raine Industries' subsidiary, Hall & Tawse Scotland, has started work on the Riverside Court development, a 10,000 sq metre office project with four floors and two central atria, which is due for completion in September 1991.

The mixed Teesdale site will have 14,000 sq metres of shopping facilities, up to 750 houses, a hotel, two pubs and restaurant.

Hall & Tawse Scotland is committed to employing local labour where possible and more than half of the 150 construction workers for Riverside Court will be recruited from Teesside.

Channel Tunnel terminal

LAING CIVIL ENGINEERING has won nearly £15m worth of orders for work at Waterloo Station, London, and the Shellhaven Refinery in Essex.

At Waterloo the British Railways Board has awarded a £10.7m contract for widening the viaduct for the approaches to the international terminal for the Channel Tunnel trains.

The work includes part demolition, strengthening and widening to accommodate five new tracks, as well as bridges over four roads.

The 81-week contract, due for completion in April 1992, incorporates provision of platforms and laying track ballast.

The company says that to keep disruption to minimum road closures and rail possessions will only occur late in the evening and at weekends.

Work has begun on a 28-week project for Shell UK Oil at Shellhaven Refinery. It involves building reinforced concrete foundations.

ARCHITECTURE

Monumental matters

What is a world monument? This may well be the question on the lips of diners at the Hadrian Award Dinner which will be held on Wednesday at The Natural History Museum.

The dinner is being organised by the World Monuments Fund for two reasons. First, to give The Prince of Wales an award to honour his concern for architecture, artistic heritage and conservation; and second, to launch the work of the fund in the UK.

The World Monuments Fund (WMF) was founded in the US in 1965 and considers itself "the only organisation to co-ordinate conservation efforts on a global scale". The United Nations Educational Scientific and Cultural Organisation (UNESCO) and the International Committee on Monuments and Sites might not agree.

However, the WMF is unusual in being very successful at galvanising private funds on an international scale. It has a lot of American energy behind it with an enthusiasm and willingness to help shoulder the burdens of others.

How does it decide what a "world monument" is? In 25 years it has worked on about 50 important projects around the world that are distinctive and diverse.

Its funding is currently helping the restoration of the temples of Angkor Wat in Cambodia by sponsoring an international survey team. Although these temples have been isolated for 20 years and damaged by war and looting, not many people would disagree about their monumental status.

On Easter Island those strange volcanic stone giants, that gaze silently at the modern world while giving away none of their secrets, are also being helped. Less well known are the island's painted caves that may have to be moved to a museum. In New Mexico the fund helps to take care of the fragile adobe churches by restoring them so that they still look as though they have grown naturally from the earth.

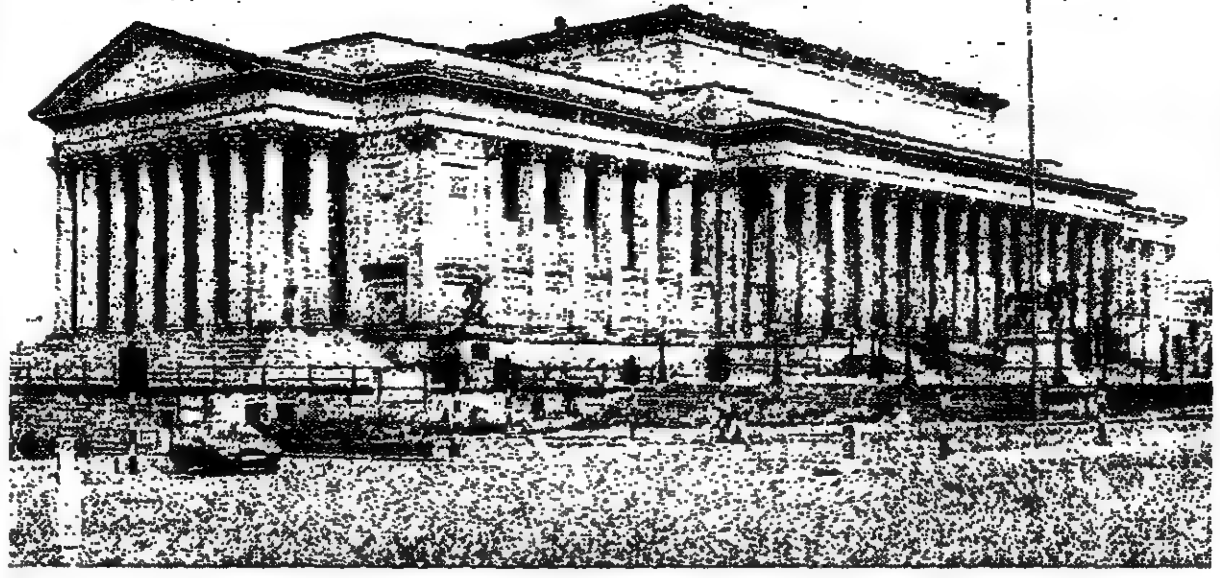
Closer to home, help has been given to restore paintings in the dome of the rotonda of the Hotel des Invalides in Paris. The fund is collaborating here with the French government by sponsoring, as part of the overall restoration of Les Invalides, the conservation of the frescoes by Charles de la Fosse and Jean Jouvenet.

The churches that are being helped might not immediately appear to be "world monuments". However, Santa Pudenziana at Narni in rural Umbria is an important early Romanesque church, and the fund has helped with the restoration of the frescoes.

Saint Trophime in Arles was once a cathedral and appears to be a straight forward Carolingian structure, but the church's distinction lies in the quality of its sculpture, which mixes Provençal legends with the Old Testament. Here the fund is helping to restore the upper portal sculpture which had been badly damaged by air pollution. This restoration is the result of about two years of laboratory work to decide on the best preservation methods for the delicate and damaged stone.

Doneraile Court is an 18th-century country house in County Cork that is in the process of being restored by the Irish Georgian Society. The St.Leger family, later Viscounts Doneraile, lived there and produced one of the few female freemasons in history – another of their number died of rabies after being bitten by his tame fox.

The fund is helping this curious corner of Irish history to survive, although some may not consider this monument to hunting and gothic conservatories to be really world class.



Liverpool's civic centre, St George's Hall: about to be declared a World Monument?

It is good news that the WMF, working closely as it does with various sponsors, particularly the Kress Foundation, is serious about two new areas of operation. In addition to the chapters of the fund that work in Italy, France, Mexico and America, a British chapter is planned. This organisation will help to solicit funds from the US for British projects, acting as a catalyst and a channel for funds and information.

The second new area is the one everyone is looking at, sometimes in bafflement and sometimes in bemusement. Russia and eastern Europe undoubtedly have monuments of world stature. Private philanthropy is not entirely unknown in these countries and as the economic climate changes, more help from the west will be made available.

Romania was bravely singled out for criticism by The Prince of Wales before the demise of Ceaucescu and the new regime still needs to be watched with vigilance. A recent official mission from the UK went to Czechoslovakia to look at the state of country houses there and its report will indicate areas in which the west can help.

It is as a catalyst and body to energise business that the WMF can be most effective. Its choice of great monuments to help has beenshown to be eclectic and interesting.

In England it is not flinching from helping to tackle serious problems. It has seen the difficulties that surround the great heritage of 19th century civic buildings in the inner cities.

Like the Getty Grant Programme of the J.Paul Getty Trust based in the US, it is prepared to be innovative and imaginative. Often the renovation and refurbishment of a civic building that has fallen on to hard times can do much to help the rejuvenation of a city. The WMF is especially welcome in Britain because it seems its patronage will be extended in unusual and enlightened ways.

Colin Amery

SPONSORSHIP

Scotland the brave

Sponsorship is currently estimated to be contributing £30m a year to the funding of the arts in the UK. The figure is a guess and excludes perhaps another £20m invested in the promotion and the entertainment which clings to sponsored arts events.

What makes the figures suspect, and probably an under estimate, is the news that Glasgow alone in 1990 attracted £5m from sponsors, plus an incalculable contribution of help in-kind, by being the "Cultural Capital of Europe".

More than 350 companies jumped on the bandwagon, many of them first time arts sponsors. Thirty six of the first timers, who put up £800,000 between them, attracted an additional £364,041 in Government aid through the Business Sponsorship Incentive Scheme.

Glasgow received much more BSIS money this year than the whole of Scotland pulled in during 1989.

It was backing in depth. Only Tennant Caledonian and BP contributed more than £250,000. Perhaps the bravest sponsorship came from Hobec Dutch Bier which enabled the very avant-garde New York Wooster Group to appear at the Tramway.

The BSIS is proving one of the better Government initiatives for the arts. The new Arts Minister, David Mellor, announced last month that in its six years the scheme has brought £36m in new money to the arts: £25m from sponsors and £11m from the Government in top up money.

Among the recent allocations a maximum grant of £25,000, went to a forthcoming Glasgow venture, the exhibition *Scotland Creates: 5,000 Years of Art and Design* at the refurbished Mclellan Galleries. It is sponsored by the local construction company, Lilley, which only a few years ago was in a parlous condition.

★

In defiance of national stereotyping, the Scots are turning out to be the most generous contemporary private patrons of the arts. Last week businessman James Gulliver gave £10,000 to director Bill Bryden, the first winner of the annual Gulliver Award for the Performing Arts in Scotland. In addition there is a £5,000 bursary to finance a year long study programme, which will go to a young director nominated by Bryden.

On November 21 the McColl Arts Foundation will distribute £55,000 to the 26 winners of its first group of travelling bursaries for artists.

James Gulliver is setting aside £500,000 under a Trust Fund from which the annual awards will be made to an actor, director, musician or dancer who has made a major contribution to the performing arts in Scotland. The McColl Arts Foundation, with assets of over £1m, covers the country, and as well as the fine arts and design travel bursaries, makes grants to projects with a greater artistic than commercial appeal.

★

With commercial sponsors increasingly reluctant to devote disappearing profits into the arts, private sponsors assume more importance. As well as Gulliver and McColl, Mr and Mrs Gert-Rudolf Flick have stepped forward to present London with three concerts by the Italian maestro pianist Pollini in the Brave New World series of post-1945 music at the Royal Festival Hall.

The concerts are unusual in that the Flicks are sharing the sponsorship with Frette, the Italian luxury fabric makers. Each contributed about£40,000.

The South Bank is still trying desperately to make good the £300,000 in lost sponsorship for its 1991 Mozart bicentennial celebrations following the collapse of British & Commonwealth. Two companies are considering taking up some of the shortfall.

★

Arts sponsorship is a woefully under-researched industry. The South Bank is one of the few arts organisations which encourages sponsors to research the impact of their support: few companies desire, or dare, to measure the results.

Sponsoring the Arts. New Business Strategies for the 1990s, an Economic Intelligence Unit report written by Mary Allen, formerly a consultant and now director of the Watermans Arts Centre in Brentford, goes some way to providing businessmen with a hand holding guide to arts sponsorship.

The 120 page report gives basic information on the size of the industry; the reasons for sponsorship; planning strategies; future trends; the role of consultants; case studies from the UK and abroad; and international comparisons.

One of the surprising statistics is that France generated around £60m in sponsorship money last year: but this includes charitable donations, heritage funding, and the fact that 1989 was bicentennial year.

The report is probably the most comprehensive publication to date devoted to arts sponsorship in the UK. Of course it is sponsored – by IBM, which enables a hundred arts organisations to acquire it for £30. For British companies still testing the water and needing advice, information, and encouragement, the report can be bought from the EIU for £120.

★

The Almeida Theatre in Islington has pulled off something of a coup in getting AT&T to sponsor a production of Dryden's *All for Love* in its spring season. In the US AT&T is a major sponsor through its Onstage programme of independent, non commercial, drama and has backed 26 productions at 19 theatres since 1986. The link with the Almeida, which is probably costing around £30,000, brings the concept to the UK. It is expected that it will be expanded.

★

Welsh National Opera has landed an impressive new sponsor, 3M, which is putting over £100,000 into the company over the next three years by backing three Verdi revivals – *La traviata*, *Ernani*, and *Un ballo in maschera*. To make it more interesting 3M is also funding a week long residency at WNO's Cardiff base for students from the National Opera Studio, who will work alongside the professional opera company during rehearsals for the productions.

★

Barclays Bank is doubling its prize money for its Young Artist Award, to £30,000. The judges are choosing a winner from nine postgraduate artists at the Royal College, the Slade, the Royal Academy Schools, Chelsea, and, for the first time, Goldsmiths. The runners up at the show, which will be held at the Serpentine Gallery from January 15, 1991, share £10,000. Entries are invited from independent theatre companies for the Barclays New Stages awards. In its first year ten companies shared £87,500 for touring fringe productions, plus a London show case at the Royal Court.

Antony Thorncroft

Il Barbiere di Siviglia

ROYAL OPERA HOUSE, COVENT GARDEN

How one longs for Dr Bartolo's every return to the stage in Covent Garden's current revival of *Il Barbiere di Siviglia*.

The role is delectably taken by that great veteran Gabriel Bacquier. He's grouchy, tetchy, red-faced, with bristling white eyebrows and a weak ticker.

I'm still laughing as I recall his aria: he puffed through one patter passage as if he were about to peg out in heart spasm. When Almaviva smarms into his house as a fake priest, Bacquier's livid asides to the audience are hilarious.

Though his singing is no longer suave, it is glorious just to hear the truly *buffo* way he delivers Italian. His every action makes the opera more real. Just see with what glee and over-excitement he listens to Basilio's Calumny aria, or see, and hear, how he nods off gradually into a quietly audible snore during the music lesson.

Il Barbiere needs this kind of characterful detail all round, or it starts to become a string of purple patches. Michael Hampe's 1985 production, now staged by Jeremy Sutcliffe, doesn't help. Leaden gags, but little characterisation.

The imbecilic hired musicians are demure, the soldiers are clockwork dolls. Peter Davison's box sets are handsome but dead, and the lighting brings daylight to Seville in fits and jerks.

However, Rossini was alive in the pit. Gabriele Ferro's conducting was vivacious, light, judicious in tempo, elegant in sound. He watched over everyone like an angel. Nothing missing save a touch of frenzy, in the *crescendi*, and a dash of impishness. Friday's was the first of eight performances he is conducting this November. For the last four, a second set of singers will take over the six leading roles.

Ruggero Raimondi (top) and Gabriel Bacquier

Raul Gimenez is a noble, expert, warm Almaviva. If he were more assertive and naughty, he'd be marvellous. I forgive some light aspirates for the melting rococo *diminuendi* with which he graces "Se il mio nome" and his fluent rapidity in recitative.

As the scoundrel Don Basilio, Ruggero Raimondi has fun, fluffing out his lank locks, *once too often?*, to charm Rosina, taking the Calumny aria from a waspish hum to an exuberant boom.

However, especially in *opera buffa*, his covered vowels prevent me from full pleasure in his singing. To the title role, Jeffrey Black brings a robust, supple baritone and a dominant physique. He understands every word, but his air of wide-eyed knowingness and solid self-satisfaction proves rather monochrome. I want more scampishness, satire, motion.

I'd been warned about the way Agnes Baltsa sings and acts, so her over-forceful chest voice and her too viperish impersonation didn't surprise me. I was simply sad, because I could recognise the muddled traces of an artist whom I once found – as Cherubino, Dorabella, Giulitta – moving, intelligent, and glamorous.

THEATRE

Maids and Widows

It seems unlikely that after a good 350 years someone will discover previously undetected virtues in lesser known Jacobean drama. Yet, whether by coincidence or design, there appears to be a certain revival going on in the London fringe.

Taking the year as a rough base point for the writing, in the last few weeks we have had *Sir Thomas More*, by a compendium of authors possibly including Shakespeare, at the Shaw Theatre, and a somewhat rewritten version of *The Old Law* by Thomas Middleton and William Rowley at the Lyric Studio in Hammersmith.

Now there are two others. George Chapman's *The Widow's Tears* is playing at the White Bear Theatre Club in Kennington, not far from the Oval, and Beaumont & Fletcher's *The Maid's Tragedy* opened last Friday at the Battersea Arts Centre in the Old Town Hall on Lavender Hill.

Of the above quartet, *Sir Thomas More* is far and away the best. It has a strongish plot and compelling subject matter. Thomas More was the Lord Chancellor who refused to go along with Henry VIII in the break with Rome. Since the break was far from clean, and has continued to be controversial arguably ever after, one can see why there was some reluctance to play it without censorship during the time of Elizabeth I when the wounds were still fresh. The piece shows that the age of Elizabeth was not entirely golden.

Apart from the events it covers, however, *More* has other rewards for a modern audience. It helps to illustrate that there was more to Elizabethan/Jacobean drama than Shakespeare. Marlowe, Jonson and a few more outstanding plays. There was a whole group of dramatists, sharing similar conventions and influenced by each other.

Thus one of the reasons why *The Old Law* was worth a new run-out was the way it revealed the authors relying heavily on *King Lear* as a starting point, but also turning the story round.

The play is about how badly the younger generation can behave if there is a law to eliminate the gerontocracy. It is also full of criticism of the narrowness of the law in general. Its content is more intellectual and satirical than emotional.

This retreat from the grand themes and heroes of Shakespeare and Marlowe is sometimes described as the theatre of decadence. Yet it had a remarkable following at the time. In the 1620s and '30s, for example, there were far more performances of the works of Beaumont & Fletcher than of Shakespeare, and if we used Shakespeare as a yardstick, few playwrights of any age would reach the first division.

George Chapman was best known for his translations of Homer: hence the Keats sonnet "Much have I travelled in the realms of gold". He also wrote tragedies which have just about survived and a few comedies. Of the latter, *The Widow's Tears* must be among the least known of the lot.

However, it would be hard not to derive some pleasure from the production by the Made-Up Theatre Co. at the White Bear. "Frailty, thy name is woman" might be the theme. Two widows, one real, one presumed, are found more than ready to succumb to seduction shortly after they have lost their husbands. Some of the situations and conventions will be recognisable from better known pieces: it is still an enjoyable outing and perhaps trying to put it into context adds to the satisfaction.

More people will have at least heard of *The Maid's Tragedy*. As with *The Widow's Tears*, the Berma Theatre Production is done in modern dress and loses nothing from it.

It is about a woman made (by the king) to marry a courtier but not to sleep with him: the marriage is a cover to allow her to continue her royal affair. You can pick up references to the drama of the time all over the place, notably to Ophelia, and the play has a ridiculous end with nearly everyone dead on stage.

Yet there are lots of delights along the way. Kate Tinder has it in her to become a very good actress. And if you see these plays, you will come better to understand Shakespeare. *The Maid's Tragedy* runs until November 18 and *The Widow's Tears* until November 25.

Malcolm Rutherford

BP Speak a Poem winners

The winner of the 1990 BP Speak a Poem Competition in the adult group was Emma Fielding, from Glasgow, who receives £1,000. The 16 to 19 year old section, worth £350 to the winner, was won by Damian Jennings from Reigate.

'Orfeo' on the South Bank

The French Baroque Ensemble Les Arts Florissants, directed by William Christie, is to perform *Orfeo* by the 17th century Italian composer Luigi Rossi at the Queen Elizabeth Hall on November 27.

ARTS GUIDE

November 2-8

MUSIC

London

Bach Mass in B minor. London Bach Orchestra (Mon). Barbican Hall (071-638 8891).
Leipzig Gewandhaus Orchestra conducted by Kurt Masur perform Brahms' first and second symphonies (Tues). Barbican Hall. (071-638 8891).
London Symphony Orchestra conducted by Paavo Berglund perform Beethoven, Sibelius and Rossini. (Wed). Barbican Hall.
Britten String Quartet play Tippett and Beethoven (Op 130 with Grosse Fuge) (Wed). Queen Elizabeth Hall. (928 3002).
Royal Philharmonic conducted by Vladamir Ashkenazy: Berg, Debussy, Scriabin (Thur). Royal Festival Hall.
Leipzig Gewandhaus conducted by Kurt Masur with Alfred Brendel playing piano in Brahms' third symphony and first piano concerto in D minor (Thur) (071-638 8891). Barbican Hall.

Paris

Cecile Ousset, piano. Chopin, Liszt, Rachmaninov (Mon). Salle Gaveau (49530507).
Ensemble Orchestral de Paris with Pierre Reach, piano, Quatuor Viotti. Beethoven, Schubert, Schumann (Tue). Salle Gaveau (49530507).
Amsterdam Baroque Orchestra conducted by Ton Koopman. Mozart (Mon). Théâtre des Champs Elysées (47203637).
Lyons Opera Orchestra conducted by Kent Nagano, with Jose van Dam. Martin, Ravel, Stravinsky (Wed). Théâtre des Champs Elysées(47203637).
Orchestre de Paris conducted by Sir Georg Solti. Bartok, Bruckner (Wed, Thur). Salle Pleyel (45638873).
Orchestre National de France conducted by Christoph Eschenbach, with Bruno-Leonardo Gelber, piano. Schumann, Rachmaninov, Schnittke, Tchaikovsky (Thur). Théâtre des Champs Elysées (47203637).

Frankfurt

Frankfurt Radio Orchestra under Elio Boncompagni with tenor Jose Carreras (Sat). Alte Oper.
Julliard Quartet plays Bach (Sun). Alte Oper.
Miles Davis European Tour 1990 (Tues). Alte Oper.

Berlin

Berlin Philharmonic Orchestra conducted by Zubin Mehta with Eva Marton, Brigitte Fassbaender, Heinz Zednik, Bernd Weikl and Keith Lewis. Strauss's *Salome* in a concert version (Tues, Thur). Philharmonie.

Amsterdam

Netherlands Philharmonic with Eliane Rodrigues (piano), Hartmut Haenchen conducting. Mendelssohn, Beethoven, Schumann. Concertgebouw (Tues).
Shostakovich Trio. Rachmaninow, Arensky, Shostakovich. Concertgebouw (Tues).
Isaac Stern (violin), Yo-Yo Ma (cello) and Emanuel Ax (piano). Beethoven, Brahms, Schubert. Concertgebouw (Wed).
Royal Concertgebouw Orchestra conducted by Jakov Kreizberg, with Karine Goergian (cello). Penderecki, Stravinsky. Concertgebouw (Thur) (718 345).
Netherlands Chamber Orchestra with Heinrich Schiff and Herre-Jan Stegenga (cellos). Vivaldi, Lutoslawski, Beethoven. Beurs.
Stuttgart Philharmonic with Emmy Verhey (violin), Wolf-Dieter Hauschild conducting. Schumann, Mozart, Brahms. Beurs (Wed)(20 04 65).

Utrecht

Krystian Zimerman (piano). Debussy. Beurs (Mon).
Amsterdam Baroque Orchestra conducted by Ton Koopman. Mozart. Beurs (Tues).

Brussels

New Belgian Chamber Orchestra conducted by Jan Caeyers with Luc Devos (piano). Haydn, Mendelssohn, Mozart. Palais des Beaux-Arts (Wed).

Madrid

Orchestra Della Scala conducted by Carlo Maria Giulini. Beethoven programme (Mon). Auditorio Nacional de Musica(337.01.00).

Bologna

Melos Quartet playing Haydn and Bartok (Mon). Teatro Comunale(529999).

Milan

Vienna Philharmonic conducted by Riccardo Muti. Mozart and Schubert (Mon). Teatro Alla Scala (80.91.26).

Rome

Canadian Brass Orchestra with John Neschling conducting Schumann, Villa-Lobos and Dvorak (Mon, Tues). Auditorium in Via Della Conciliazione (6541044).
Krystian Zimerman (piano) (Thur). Teatro Olimpico(393304).

New York

Marlboro Music Festival. Mozart, Schoenberg, Mendelssohn (Mon). Carnegie Hall (247 7400).
New York Philharmonic conducted by Erich Leinsdorf with Charles Rex (violin). Stravinksy, Dallapiccola, Brahms (Tue); Erich Leinsdorf conducting. Stravinsky, Debussy, Beethoven (Thur). Avery Fisher Hall, Lincoln Center (874 6770).
Musica Sacra conducted by Richard Westenburg. Faure, Bach (Wed). Alice Tully Hall, Lincoln Center (874 2424).

Washington

National Symphony conducted by Mstislav Rostropovich with James Galway (flute), Toshiko Kohno (flute). Weber, Khatchaturian, Frescobaldi, Cimarosa, Tchaikovsky (Tue); Mstislav Rostropovich conducting with William Steck (violin). Nicolai, Rosenman (world premiere), Beethoven (Thur). Concert Hall, Kennedy Center (467 4600).

Chicago

Chicago Symphony Orchestra conducted by Leonard Slatkin with Chicago Symphony Chorus. Corigliano, Piston, Rorem (world premiere) (Thur). Orchestra Hall (435 3392).

Vienna Philharmonic

FESTIVAL HALL

Conducted by Riccardo Muti, the Vienna Philharmonic has given two concerts at the Festival Hall this week.

Their playing has been superlative, but it would difficult to imagine less adventurous programmes – Beethoven's Fourth and Brahms' Second Symphonies on Wednesday, Mozart's Linz and Schubert's Ninth last night.

There is everything to be said for the opportunity to hear one of the finest European orchestras in the core symphonic repertory but not, surely, quite so exclusively on a two-concert visit.

Surprise that the orchestra was not encouraged to offer more varied fare was only compounded by the BBC's dutiful decision to relay both concerts.

When so many enterprising and first-rate orchestral concerts in London are entirely ignored by Radio 3, it is a rich irony that the VPO's tame offerings should be so eagerly taken up, just because it was the Vienna Philharmonic.

If the results in Beethoven and Brahms had been blandly excellent, the Mozart and Schubert provoked more distinct reactions.

Even the most conservative Mozartian was unlikely to have thrilled to Muti's Linz, tackled with a 50-strong band. Contours were too smooth, the textures too homogeneous, and any tensions invariably dissipated.

The minuet was positively lumbering with no trace of elegance, or wit and the self-conscious caesuras in its main theme were unexpectedly ill-judged.

One can also play Schubert's Ninth authentically, and then it becomes the last Classical symphony, the work in which the formal and expressive conventions are finally overloaded.

However, it is equally possible to treat it as a part of the 19th-century romantic mainstream, as it was implictly here. The string textures, and brass chording could hardly have been more luxuriant had this been the ninth symphony of Bruckner, but in this case, unlike the Mozart, the momentum was always preserved.

Muti kept the music moving forward, gradually stirring the first movement into life from the slowest of beginnings, making the scherzo buoyant and setting the finale upon a faultless trajectory while the orchestra's articulation was unfaltering.

It remained, though, a bit remote and magnificently austere. Real warmth and generosity were reserved for the encore, the Overture to Rossini's *Il viaggio a Reims*.

Andrew Clements

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Bundesbank strikes back

IN RAISING the Lombard rate, somewhat unexpectedly, by half a percentage point last Thursday, the Bundesbank showed that it is not to be ignored. Grandiose schemes may be hatched for European Economic and Monetary Union; huge expenditures may be devoted to the rehabilitation of east Germany; but, until replaced by the mooted European Central Bank, the Bundesbank will go on defending its counterinflationary virtue.

The rise to 8½ per cent was presented as a technical matter. So, in a sense, it was. The Lombard rate is the rate at which the Bundesbank provides emergency funds to the banking system. But since German monetary union last July, short term money market rates have tended to be above the Lombard rate. It is not surprising that the Bundesbank should wish to close off this route to profitable re-lending. It is all to the good that it can deliver a warning to the politicians at the same time.

The immediate recipient of its message is Mr Helmut Kohl. The Bundesbank resents the way the German government is ignoring its concern about the public sector deficit, expected to be DM100bn (£34bn) this year and at least DM120bn next year (around 4 and 4½ per cent of gross domestic product, respectively).

Outsiders may regard the Bundesbank's concerns as exaggerated. The increase in the deficit reflects the costs of unification, which is presumably an investment that will return large profits in the longer term. Furthermore, at 23.1 per cent of gross national product, the net debt of general government is lower than in any member of the group of seven industrial countries, except Japan. With a current account surplus in 1989 of over DM100bn, west Germany also possesses the domestic savings needed to finance the fiscal deficit.

Long term implications

Outsiders nearly always do view the Bundesbank's concerns as exaggerated. The Bundesbank's response is that it did not gain its reputation by ignoring the long term implications of short term trends. The government might change its profligate ways, as it did in the early 1980s. But it also might find legislating more spending than taxation as irresistible as has the Congress of the US. The Bundesbank intends to make clear that increased spending carries a price in the form of higher interest rates.

Monetary easing

The fiscal deficit is not the Bundesbank's sole concern. The five independent west German institutes expect the growth of west German gdp to be 3 per cent next year, offset by a collapse in east Germany, giving overall growth of 1½ per cent. The government is more optimistic still, which will confirm the Bundesbank's concern about pressures in the west Germany economy and its resistance to monetary easing in the near future.

Meanwhile, growth is slowing elsewhere in the EC, while the UK is probably in recession. The French did manage a ¼ per cent reduction in short term rates of interest only the day before the Bundesbank acted in the opposite direction. But nobody will have much room for manoeuvre as long as the Bundesbank stays put, least of all the UK, with sterling now the second weakest currency in the exchange rate mechanism. The pain of importing a monetary policy made in Germany will be worsened by the weakness of the dollar, now down to DM1.49.

No wonder some other members of the ERM dream of raping the Bundesbank via what was euphemistically described in the Rome communiqué as strengthening "the co-ordination of monetary policies" in the second stage of Emu, due to start in January 1994. But the Bundesbank will defend its virtue as long as it can. So, indeed, it should. A central bank prepared to raise interest rates a month before an election is precisely what Europe needs.

The coming test of EC exchange rate stability will be harsh, but it will also be a valuable one. The idea of Emu has been greeted with enthusiasm. But, as a reality, it means abiding by a monetary policy that will satisfy the Germans. The next year or two will tell whether the rest of the EC is really prepared to do so.

Earth's rule of TV from skies

THE merger between Mr Rupert Murdoch's Sky Television and British Satellite Broadcasting is a landmark event. In offering a financially robust challenge to the BBC-ITV duopoly, it guarantees a breakthrough in consumer choice and is welcome. The deal does, however, raise important regulatory issues, only days after the Broadcasting Act became law.

The first question is: should BSB and Sky be allowed to retain in marriage the privileges of bachelorhood? Sky's privilege is effective exemption from UK regulation, because it transmits from a continental satellite, Astra; BSB's advantage is a monopoly of the UK's five high-powered direct broadcasting frequencies (DBF) which transmit pictures of enhanced quality.

British Sky Broadcasting, the new company, proposes for a period to transmit on both the unregulated Astra and the regulated BSB satellite. As BSB's regulator, the Independent Broadcasting Authority can prevent this, although the effect would probably be that existing BSB viewers would lose their service rather than the blocking of the merger.

Labour has long campaigned to bring Sky within the Broadcasting Act, on level playing field grounds. But the government justly counter-argues that such regulation would have destroyed the fledgling Sky, since it would have required Mr Murdoch to sell 80 per cent of his pioneering venture; national newspaper owners, under the terms of the Act, cannot own more than 20 per cent of a TV company. Mr Murdoch already controls a third of the British national press. The government has also argued that it is easy for others to compete with Sky, since there is spare capacity on Astra, and it is popular with those who receive the service. Those who take satellite TV, watch it for up to 40 per cent of their viewing time.

Stronger competitor

Since the merged, stronger, BSB will be half owned by Mr Murdoch and half owned by the BSB shareholders, among whom is another national paper owner, Pearson, publisher of the Financial Times, the debate acquires a new intensity. The new BSB is also no fledgling. It already has access to more than 2m of Britain's 21m television homes

BBC-ITV duopoly

It would be wrong, however, for the IBA to impede the merger, since the underlying thrust of broadcasting competition policy should be to increase choice. That primarily means diminishing the relative market power of the BBC and the ITV companies.

But it is difficult to see why the new BSB should have a monopoly of the DBF channels for more than a very short transition period. This would be needed so that customers can be offered a round rather than a square dish to receive the combined service. Many may decline, since BSB has sold itself as a BBC-style alternative to Mr Murdoch.

Whether to regulate the new BSB is a more complex question. In technical terms, barriers to entry will remain low, but the argument cannot end there. Britain's national newspapers are in too few hands and the main force behind that concentration has been Mr Murdoch, who has snapped up titles at times of trouble. In that sense, the satellite TV merger follows a pattern. Editorially his people are in control, but his financial exposure is halved.

It would be nice to address this problem by levelling down the regulation faced by all UK broadcasters. Coupled with a sharper definition of public service broadcasting, this would foster a mixed economy of UK broadcasters appropriate to the 1990s. Deregulation in this spirit would also involve re-examining cross ownership rules between newspapers and TV; the 20 per cent restriction is not necessarily right in a world of greater complexity and choice.

However, since the Broadcasting Act abandoned the initial goal of a "light touch" regulator it must conclude that British politicians are not ready for such an approach.

That being so, the only way available to level the playing field is to set a date for bringing the new BSB and other satellite broadcasters into regulatory line.

Democracy in India is being sorely tested by communal unrest, political instability and separatist movements. **David Housego** reports

Turmoil erodes the Nehru legacy

As caste and religious violence have rolled across India in recent weeks, many Indians have had that uncomfortable sense of living through a period of social upheaval without precedent in their country's post-independence history.

Few had ever imagined that students would take despair to the point of setting fire to themselves in protest against Prime Minister V P Singh's programme for reserving public sector jobs for the lower castes. Nor had they imagined a collapse of discipline among the police that would enable Hindu militants to storm the disputed 400-year-old mosque at Ayodhya and hoist their saffron flags on the domes. Hindu extremists claim the site is the birthplace of the god Lord Rama. Ayodhya has become the focus of renewed Hindu-Moslem clashes which have claimed several hundred lives across India in recent weeks.

Both events point to the unleashing of forces which the government is unsure how to control and which are carrying India into uncharted waters. Also indicative of the uncertainties is the political confusion in Delhi as Mr Singh's administration lives out its last days amid manoeuvrings by every conceivable combination of party and faction to form a successor government. What does seem clear is that the "old order" – the India of Nehru's vision with its priorities on maintaining a secular, democratic and unified national framework – is facing its most serious challenge since India became independent in 1947.

Some of the familiar landmarks are now being eroded. After the bloodshed of partition and the creation of a separate Moslem Pakistan, Nehru promised to Moslems who remained in India the security and equality of opportunity of a secular state. But with the rise of Hindu fundamentalism – exemplified by the seizure of the Ayodhya mosque last week – and with some senior politicians speaking fearfully of the county as in danger of tumbling into religious civil war, Moslem confidence has been shaken.

The student suicides reflect the anxieties of the upper castes over a social revolution which could ultimately wrench from them the dominance of senior government jobs – and the influence and patronage that goes with this – that they have enjoyed since independence.

The lower castes have become increasingly aware of their electoral power and are using strength in numbers to increase their access to jobs and resources. These so-called "backward castes" – mostly farmers, rural labourers and artisans – account for an estimated 52 per cent of the population and the Scheduled Castes (untouchables or Harijans) for a further 22 per cent. Their leaders are dismissive of the Nehru emphasis on industrialisation and want the priorities shifted to the rural areas and to job creation programmes in the villages.

Other traditional assumptions are also being questioned.

● Separatist movements in three border states – Kashmir, Punjab and Assam – are overstretching the security forces in maintaining the unity of the country as never before.

● In the management of the economy India's reputation for caution is also being undermined. Through a combination of loosening the reins domestically and of the unexpected external blow that came with the Gulf crisis (loss of remittances and higher oil prices), India faces as bleak a picture of high external debt, widening balance of payments and fiscal deficits and accelerating inflation as it has ever confronted.

● India's record of stable democratic government is also being tested by the continuing prospect of fragile coalition rule in Delhi and by the increasingly systematic use of violence by political parties, caste groups, regional movements and interest lobbies who see no other way to promote their interests.

These elements alone add up to a picture of a nation in turmoil. But this does not begin to convey the complexity of the situation for India is also experiencing several other upheavals that feed on each other:

● There has been a sharp surge in demand for western-style consumer goods with the growth of a middle class market of 150m-200m.

● There is a small entrepreneurial "revolution" under way with companies better managed, expanding faster and producing record profits.

● There is also an agrarian revolution taking place in the north – with the increase of farmers' incomes in part responsible for their demands for greater political power.

This effervescence is evocatively captured in the sub-title – "A million mutinies now" – of V S Naipaul's new book on India.

India is a vast country with so many differences of region, religion, culture and language that there has always been an uneasy balance between the pressures of unity and disintegration. The emperor Akbar at the height of the Mughal empire provided a unified administration and judiciary. By the 18th century the imperial capital at Delhi had been reduced to one of many competing power centres.

Britain also established a unified rule over India. But it left the sub-continent divided with the creation of the Moslem state of Pakistan. Yet even within the newly independent India, the autonomy enjoyed by princely Hindu and Moslem states such as Hyderabad and Mysore gave the country the character of a federation.

Nehru's goal was to weld this untidy mass into a nation state committed to modernisation and industrial development. The cornerstones of his vision were a democratic system that recognised the country's pluralism; a secular state that provided protection for Moslems and other minorities, thus demonstrating that the creation of Pakistan had been a mistake; and an emphasis on national unity and integrity to forestall further separatist movements and divisions of caste and religion.

The 'old order' – the India of Nehru's vision with its priorities on maintaining a secular, democratic and unified national framework – is facing its most serious challenge since independence

The instrument for this nation building process was the Congress party. Congress had established itself as a mass movement during the independence struggle. After independence it became an umbrella organisation bringing different castes, regions, and religions into its fold.

But strains soon developed. Regional and linguistic movements in Tamil Nadu and the Punjab tugged at the nation's unity. In the southern states the lower castes pushed the upper castes from power in a revolution which is still little known. In the 1960s and 1970s the challenges were greater. The Congress party, split under Mrs Indira Gandhi, became a vehicle for dispensing jobs and patronage and disintegrated as a mass organisation. Faced with economic stagnation in the 1960s, Mrs Gandhi turned to populism to win votes. After nationalising the banks, she launched an election campaign in 1971 on the slogan of *"garibi hatao"* (remove poverty). But government and state institutions fell into disrepute because economic performance failed to meet the expectations aroused.

Mr Rajiv Gandhi, taking over power in 1984 after his mother's assassination by Sikh extremists, accelerated these changes, liberalising the economy, encouraging competition and relaxing controls that had for long hampered industrial expansion. During Mr Gandhi's period of office, India recorded its highest rates of economic growth since independence. But rapid growth further widened the disparities between rural and urban areas – and the uncertainties that accompanied accelerating change have helped unleash the forces that are now gripping India.

India has often defied its Cassandras. But many observers in Delhi feel that the combined challenges of caste and communal violence, political instability, separatist insurgencies and external debt and fiscal deficits pose a greater threat than any since independence. They are also challenges to which there is no quick solution.

Hindu militancy has increased rapidly to a point where the creation of a Hindu state becomes a possibility. Shortly before independence, fundamentalists tried to destroy the concept of a secular state by assassinating Mahatma Gandhi – its most courageous supporter.

Mrs Gandhi was the first prime minister to compromise. India's secular tradition when she encouraged Hindu militancy against Sikh separatism in the early 1980s. Revivalism since then has been bolstered by the continuing Sikh insurgency in the Punjab and by the Moslem separatist movement in Kashmir.

Hindu fundamentalists have never forgiven Moslems for the division of the subcontinent and the creation of Pakistan. They claim that Hindus are now treated as "second class citizens" in their own country, while Moslems are favoured – in the name of protecting minorities – by being allowed their own personal law, their own educational institutions and by a government that backs their cause in the Ayodhya controversy.

In recent weeks, the revivalists have made strategic gains. Their campaign to build a temple at Ayodhya has encouraged the growth of a mass movement that stretches across castes and through most leading states. The temple has been projected as a symbol of Hindu unity.

The Hindus' other success has been to exploit student and urban middle class opposition to Mr Singh's job reservation programme for the poorer castes. Accusing him of dividing India on caste lines, they projected themselves as defenders of Hindu unity.

The lower castes' challenge to the dominance of the upper castes' administration of the country has a long history that has only come to fruition in the past 20 years. . It has its roots in traditional friction between rural and urban India, and the hatred of Brahmins and other higher castes by the lower castes.

Ram Manohar Lohia, a charismatic agrarian anarchist was the first politician to recognise in the 1950s the potential electoral strength of the lower castes. Lohia condemned Nehru's policy of industrialisation as impoverishing the rural areas. He is still regarded as a "prophet" by many of the Janata Dal leaders in Mr Singh's coalition government.

Since 1967 the backward castes have made significant political gains in state elections in the north and in national elections. But their principal goal of securing jobs in the central government as a lever of prestige and patronage eluded them until Mr Singh announced his programme of reserving 27 per cent of jobs in public service for the backward castes.

Mr Singh's intention was to accelerate the shift in the social balance of power that was taking place in the north and to build a new electoral alliance. The threat his policy posed to the higher castes – many of them poor and without jobs – was shown by the despair of students who set themselves ablaze.

The "old order" is also under threat from the insurgency movements around India's borders. In Kashmir more than 1,000 people have been killed in the first nine months of this year. In the Punjab, the death toll is running at 200-300 a month.

There is a widespread fear among politicians in Delhi that a general election held now would bring to boiling point the caste, religious and regional tensions that have been unleashed. Yet without elections there is no prospect of a government obtaining the stable majority needed to tackle problems that are now tearing India apart.

OBSERVER

London cap and bells

■ The reverberations of those local council swap deals in the money markets are going to be heard for some time to come.

As a reminder that this is a story that will not go away the rate-capped London Borough of Hammersmith and Fulham is now advertising for a new director.

He, or she, will become the borough's third head of finance since the council became embroiled in its highly controversial capital markets activities five years ago.

The council's advertisement highlights the challenges of the double burden of managing the finance department of a capped borough, as well as coping with the aftermath and implications of its money market deals.

The post will be truly challenging since, following the House of Lords' decision last week that Hammersmith's market transactions were all illegal, the appointee can expect to be involved in the mammoth task of unravelling the council's hundreds of deals.

Lyndsey Robb, the council's last finance director, left two months ago after failing to sort out the morass of its market dealings. Now he is being personally sued by a group of banks for his responsibility in the swap market trades.

Chocs bar

■ That sober British medical journal The Lancet has caused panic among chocoholics by suggesting that the stringent new alcohol limit for Swedish drivers might be exceeded inadvertently by people with a sweet tooth.

A medical condition called "auto-brewery syndrome" has been found to cause some people to convert sugars derived from chocolate to alcohol in their stomach. Volunteers who had drunk no alcohol for 24 hours showed a build-up in the blood. It was high enough to reach Sweden's new limit for drivers.

"Drunk through chocolate", trumpets the paper De Telegraaf, from Holland where chocolates are a way of life.

That has brought an indignant complaint from Mars, makers of the ubiquitous chocolate bar, that the reports had not thought fit to mention that the volunteers tested were all patients with a rare medical disorder.

It is still, apparently, safe for healthy motorists to nibble delicately and drive.

Free ticket

■ As if the Spanish decision to charge almost $40 for tickets for the 1992 World Fair in Seville is not alarming enough, it is also just possible that the takings could all go to an escaped Spanish prisoner and, latterly a Euro MP, Jose Maria Ruiz-Mateos.

Those with long memories will recall that in 1983 Spain's socialist government expropriated his banking and industrial group Rumasa, after accusing him of fraud.

He ran away, was caught and imprisoned. He escaped more than once, and last year won immunity from prosecution by getting himself elected to the European Parliament. His genius for publicity has even taken him into government press conferences disguised as a Rocker.

Ruiz-Mateos wants his business empire back. And, to the great consternation of the government, which has since sold the pieces off, he is making considerable progress.

A Madrid court has given him the right to reclaim Banco Atlantico, Spain's 13th largest bank. The court says the expropriation did not serve the social purposes required under law. The same ruling has applied to Rumasa's old headquarters in Madrid, and to five other businesses.

"I'm waiting in the wings".

The government, which would have to foot the bill if present owners were forced to give up what it sold to them, is appealing against all the rulings.

Meanwhile, it emerges that the Expo 1992 world fair site in Seville belonged to none other than Ruiz-Mateos. He wants it back. The way things are going he may well *not* have to pay for his ticket.

Street traders

■ When Hungarian central bank officials passed by long queues outside banks on their way to work they immediately feared the worst.

Surely it was a run on deposits after the paralysing three-day protest by taxi-drivers against higher petrol prices?

They need not have worried. The customers were standing in line for shares in Fotex, a private Hungarian photo-developing company, which has grown from nothing into a big business in the last seven years.

The first punters arrived to queue a day before Girozentrale Budapest, the lead manager bank, opened its doors. Meanwhile, three blocks away, thousands of pro-government demonstrators hurled abuse at the striking taxi-drivers.

There need be no guesses as to which gathering was the more profitable.

The Fotex issue has been six times oversubscribed, promising a healthy mark-up on the issue price for the patient pavement queuers when trading begins.

In a word

■ It used to be known as "Cidade Maravilhosa" – Marvellous City.

But nowadays Rio de Janeiro is more famous for its slums, and high crime rate than its yearly carnival. Many businesses have moved 200 miles south to Sao Paulo, and the US consulate provides all visiting businessmen to Rio with "tips on how to avoid being kidnapped".

"Not so", argues the Governor of Rio, who claims the city's crime reputation is a fiction manufactured by hoteliers in Sao Paulo.

"Rio has less crime than Sao Paulo – it is just that we are more well known", says the president of Rio's chamber of commerce.

But the chamber was dismayed when it commissioned a study asking residents to pick the word which best described it. The chamber expected answers such as "beautiful, happy, and fabulous".

Instead, far and away the most popular choice was "violent", with "dirty" in second place.

Rally driver

■ Not much news from the Gulf, except that Saddam Hussein is said to be driving a Golf Crisis.

John Gapper and **Michael Smith** say that pressure to contain wage costs is complicated by old formulae and new structures

The pay party is over: now for the hangover

The long earnings party hosted by Britain's employers, at which workers celebrated the good times of the 1980s, is ending. The guests have imbibed heavily of pay rises above the rate of inflation, of money to compensate for new working practices, of bribes to scarce skilled workers. Even parts of the public sector joined the party after a time. It will be hard to break up: there will be recriminations, perhaps some fights. Most of the participants face a nasty hangover.

As employers face up to the winter and spring wage rounds – the busiest times of the pay bargaining year – the pressure to contain wage costs is becoming intense. Britain's entry to the exchange rate mechanism of the European Monetary System has combined with a trading downturn which may turn into a recession. A government which exhorts the private sector to cut earnings growth will be tested on whether it can moderate public sector settlements.

Mr John Banham, director general of the Confederation of British Industry, has urged members to halve the going rate of pay settlements from its current level of around 10 per cent. He says industry can only afford unit wage costs to grow at 2 per cent a year inside the ERM. It is far from the actual rise in manufacturing unit wage costs of 9.7 per cent in August. As output has fallen, the 7 per cent productivity growth of the mid-1980s "miracle" has slumped to 1 per cent.

Cutting earnings growth will be hard. In the private sector, the expectations of workers coping with inflation at 10.9 per cent and high interest rates remain high. Unions are pressing for "inflation plus" settlements in manufacturing, and have been offered them at Jaguar and Rover Group. Skills shortages have not been eased enough by rising unemployment to allow engineering companies to safely depress the pay of electricians and craftsmen.

One large company doubts whether even a fall in orders would affect the expectations of manual workers who have not yet felt the pinch of unemployment

The public sector is as tricky. The government clamped down on civil service pay in the 1979-82 recession by abolishing the expensive system of pay comparability with the private sector. It held down pay during the mid-1980s, but pressure has burst out in discontent among ambulance staff, and shortages of teachers, civil servants and health workers. It is now burdened with new forms of pay comparability for teachers and the civil service which could be costly.

There is a grim mood among many private sector personnel managers as they contemplate the coming pay round. Financial pressures mean companies in several sectors want to cut rises below the rate of inflation. But the difficulty in achieving this is widely acknowledged. Mr Douglas Smith, chairman of the Acas conciliation service, points out that the pay link with the retail price index has not been broken in a decade.

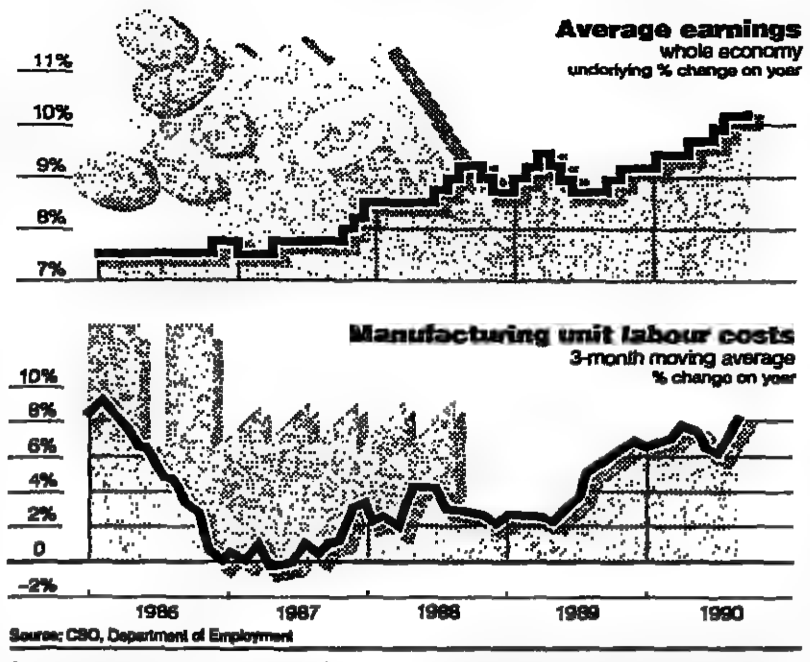
The personnel manager of one large engineering company doubts whether even a fall in orders would have an effect on the expectations of manual workers who have not yet felt the pinch of unemployment. "We are telling them that a high pay rise would mean job losses but they are looking at things week by week. They say prices have risen by more than 10 per cent and they want a pay rise to compensate. They do not see the effect that has on the business," he says.

Among the problems facing engineering companies is that many have bargained away a tranche of potential productivity improvements over the next years in return for reductions in working hours. Those unable to settle below inflation may find difficulties in achieving further working practices changes. "Pay is extraordinarily difficult at the moment because of the external pressures," says Mr Colin Pope, executive director of the Engineering Employers' Federation London association.

The pay squeeze in financial services, which led the way in earnings rises in the late 1980s, may be even fiercer. The profit margins of clearing banks have been hit by interest being paid on current accounts. The banks start settling pay in January, and one pay bargainer says they are likely to risk industrial action to depress rises. "There will be a pretty tough stance. The banks are shedding labour and staff are probably more worried about that than earnings," he says.

Reining back pay in the private sector is likely to be a more complex process than in the early 1980s. Many companies have invested in complex pay structures relating pay to performance and quality rather than output. "It is certainly not cheaper. There is a premium for the privilege of discretion," says the personnel director of one large electronics company which now has performance-related pay for both manual workers and white-collar staff.

In the public sector, union leaders fear the government will try to force down earnings levels using a covert "pay norm" of 7 per cent. This figure was quoted in the government's submission to the nurses' pay review body. It is also similar to the 7.1 per cent allowed to local authorities for pay rises in government grant rises



Source: CSO, Department of Employment

for 1991-92. Treasury estimates for the running costs of civil service departments suggest a lower level still – of 5.3 per cent.

The first significant test of the government's resolve is likely to come in January, with the reports of the interim advisory committee on teachers' pay, and the pay review bodies covering nurses, doctors, professions allied to medicine and top salaries. The review bodies make judgments independently of the government, and their recommendations are likely to be heavily influenced by continuing staff shortages. That in turn suggests higher rises higher than the government wants.

Although it is unlikely to reject the recommendations outright, it may implement the awards in stages rather than risk them setting a "going rate" for other groups of workers who will be about to negotiate pay. In the National Health Service, the nurses' award will be announced ahead of settlements for 150,000 ancillary workers, 140,000 clerical staff, 80,000 professional staff and 19,000 ambulance workers, all with settlement dates of April 1.

Local government workers' pay talks will have their tone set by the award for teachers. From the point of view of local councils, it is unfortunate that the government has chosen this year to introduce a formula linking pay to settlements in the private sector. The Department of Education and Science has urged that the settlement should fall in the middle range of pay settlements in the private sector during the year to the beginning of this month.

The advice has irked local government pay negotiators, whose authorities must meet the teachers' pay bill. "We don't understand why the government did it," says one council leader. The decision should mean a rise of at least 8 per cent. Mr Charles Nolda, who will help lead the employers' side in local government pay talks, says anything for teachers above the 7.1 per cent set aside in government grants will mean authorities will have to "rob Peter to pay Paul".

The other two main groups in local government are the 700,000 white collar staff and 1m manual workers. Leaders of Nalgo, the white-collar union, have already suggested a claim for rises of 12 per cent for the bulk of staff, and up to 58 per cent for the lowest paid. Local councils, still smarting from their defeat in a series of strikes last year, want anything but a deal weighted towards the lower paid. They are suffering from skill shortages in higher grades.

The local authorities' best hope for smooth negotiations is a decline in inflation, and thus expectations. That should apply equally to the government. But a steep fall in inflation could cause embarrassment in pay talks with civil servants, the only group with which the Treasury negotiates directly. This is because the long-term deals signed over the past three years with unions constrain settlements within the middle range of private sector deals in the past year.

The local authorities' best hopes for smooth negotiations rest with a decline in inflation and with it a corresponding fall in their employees' expectations

The middle range used for 300,000 junior and middle-ranking civil servants whose pay review date is April 1 is calculated on the year to February, while that for another 140,000 Inland Revenue staff, specialists and senior civil servants is based on the year to June. If inflation falls quickly, the government risks the lowest point of the pay range for the second settlement being higher than inflation.

In that case, it would have to choose between paying real salary rises or breaking long-term pay agreements. Because those agreements have now spread across large parts of the public sector – in return for unions agreeing regional and performance-related variations in pay – a controversial precedent would be set by breaking them. But the government will also be under pressure to hold down its pay settlements as the private sector suffers.

Employers in both public and private sectors therefore have a range of reasons to fear upward pay pressures will not ease quickly enough to prevent a rapid rise in unemployment. Mr Walter Eltis, director-general of the National Economic Development Office, told unions and employers last week that unemployment might have to rise between 300,000 and 500,000 in order to cut settlements back to the 5 or 6 per cent level needed for Britain to remain competitive in the ERM.

There are some hopeful straws in the wind for companies afflicted by general labour shortages over the past three years. Clearing banks have been able to limit rises in London and south-east allowances, and retail employers are finding life a bit easier. W H Smith Retail is finding it easier this year to recruit the 3,000 extra staff it needs for Christmas. "It looks like a temporary respite", says Mr John Ainley, its personnel and training manager.

But there are few signs yet that unemployment is biting into the pay expectations of skilled workers, or that companies can afford to reduce earnings without damaging quality, or watching workers leave voluntarily. As Britain heads into what could be its most painful pay round for some years, it may still be some time before the guests are convinced the party is over. And the longer the revelry lasts, the more painful will be the hangover.

LOMBARD

Lessons of EC farm fiasco

By Samuel Brittan

MRS Thatcher's performance in the House of Commons after the Rome summit helped her to lose a deputy prime minister whom she could ill afford to see go. Yet there was one subject where, so far from exaggerating the folly of European Community behaviour, she understated it. This of course is agriculture.

The Common Agricultural Policy not only damages producers in other countries whose support is vital for a successful conclusion of the current trade talks. It is also extremely expensive to consumers in the Community.

The Community is not alone in such conspicuous waste. The average burden of such support in industrial countries alone could be as high as $900 per family per year. Unfortunately, the beneficiaries are not the smaller or poorer European farmers. The main gainers are landlords and larger farmers who own their own land. This is because the benefits of artificially high prices are soon capitalised into land values and therefore rents.

After four years, the Commission has offered as its starting point a mere 30 per cent reduction in the level of farm support. Yet even this miserable offer has been thrown out by a alliance between the German government intent on buying agricultural votes and the French government keen on preserving the protectionist principles of the CAP.

The contrast with other sectors is worth highlighting. The European Community has been strong enough to introduce an industrial free market with low external barriers. It is struggling to do the same in services. But in agriculture the power of vested interests has been too strong. It would have been better to have left agricultural policy at a national level. This would have enabled each country to support those products where the political pressure was greatest without generalising its support levels to the rest of the Community.

Thus for many years I have been in favour of countries such as the UK joining the ERM, participating in moves to monetary union, but leaving the Common Agricultural Policy. Support for an independent central European bank, but a national system of price support, would be a good flag to fly for those who believe neither in Community nor in national policies for their own sake, but for policies which serve the interests of European citizens as well as the wider international community.

It may however be too late for such a radical restructuring. What then follows? The present system under which the Commission negotiates on trade and agriculture on behalf of 12 national states is worse than either the federal or the national extreme.

It is difficult to believe that a federal European government with a strong executive would have behaved quite so feebly in constructing a Gatt negotiating position. Comparisons with the US need to be cautious because the Senate will have to ratify any Gatt agreement. But at least the US has had a negotiating mandate. Even within a federal context, the stronger the executive in relation to logrolling legislators, the more room it would have for negotiating away agricultural and other protectionist policies.

The balance of legal opinion seems to be that the Community does have the power to proceed on trade and agriculture by qualified majority vote. But so far it has been understandably reluctant to run counter to two countries as important as France or Germany or to test whether it can find enough votes among other countries to stop them forming a blocking coalition.

The Commission may also have the power to negotiate on its own responsibility, provided that the results are eventually accepted by member governments. A discretionary negotiating mandate for the Commission may be the best approach for the trade and agriculture ministers meeting today. But the broader moral is that the interests of deregulation and freer trade requires a strong central direction at Community level, not a weak one. By denigrating the Commission, Mrs Thatcher is downgrading a valuable ally on an issue where, for once, her instincts are entirely on the right side.

LETTERS

Price is what matters in the marketplace

From Mr Austin Mitchell MP.

Sir, I thought, until I read Christopher Lorenz's article ("Adding Value to Exports," October 29), that only the well-fed, well-heeled academic and City-oriented Euro-know-nothings who advise government on economic policy lived in a Cloud-cuckoo-land labelled "non-price competition". There are, apparently, others.

In a market economy competitiveness is determined by price and nothing else. Every "non-price" factor of production mentioned by Mr Lorenz has to be paid for like every other factor and its cost (plus a full margin of profit) recovered in the price if the firm is to remain competitive.

The record shows that the huge increases in the German share of world trade after 1948 and in the Japanese share after 1952 were based on an invincible combination of low export prices and very high export profit margins. That made economic sense when they were rebuilding but because the Bretton Woods system lacked the symmetry imposed by the international gold standard before 1914, there was no way in which Germany and Japan could be stopped from pursuing beggar-my-neighbour policies once they had rebuilt.

That impediment was removed in 1972. When the dollar fell in 1971-73 and again in 1976-78 German and Japanese exports took a hard knock. That is why the Germans agreed to the European Monetary System and why they are now so anxious to consolidate their present advantage through a single currency. That will achieve from economic aggression what they have twice failed to achieve militarily. Tied to an appreciating D-Mark other member countries will in effect pay reparations to third countries for the economic damage the Germans have inflicted.

A marked change in the value of sterling has invariably been followed by a marked change in the UK share in industrial countries' exports of manufactures in terms of volume, falling 12 per cent in 1970-74, rising 2 per cent in 1974-77, falling 22 per cent in 1977-81 and rising 11 per cent between 1981 and the first quarter of 1987. Since then it has begun to fall despite a huge increase in the import content. The loss since 1977 of £32bn of trade and 2m UK jobs in manufacturing can only be attributed to the increase in the value of sterling.

In the absence of government intervention, the international division of labour is determined by the law of comparative costs in international trade. Provided the exchange rate is correctly positioned, every country can balance its overseas accounts in conditions of full employment at a high and sustainable rate of growth. We must reduce the exchange rate to a competitive level so that the relative earnings of shareholders and their employees in manufacturing can rise by at least 15-20 per cent to solve our problems. That in turn will require a completely new fiscal, monetary and exchange rate approach to enable us to combine internal growth with external equilibrium.

Austin Mitchell,
House of Commons,
Westminster, SW1

A network for business support

From Mr Ron Taylor.

Sir, May I clarify one or two points on chambers of commerce in the UK, arising from Mr F Keith Johnson's comments (Letters, October 18).

While the 110 professionally staffed chambers have 90,000 businesses in membership, it does not follow that the other 400 or so smaller chambers must bring total membership to nearer a quarter of a million companies. In fact, the combined membership of the smaller chambers is in the region of 30,000 businesses.

These chambers are usually very small, with an average membership (subject, of course, to wide variation) of less than 100 businesses each, the majority of which are local retailers – hence the frequent use of the name chamber of trade. In the case of the 110 professionally staffed chambers (usually called chambers of commerce and industry) the average membership is 850 companies, about 40 per cent being manufacturers and normally including most leading companies in their area.

In the pursuit of effective business support, where parity with continental chambers is the urgent priority, the professionally staffed chambers in the UK have an already developed capacity in the delivery of practical business-support services in exporting, business information, management training etc. With an average of 30 staff in each chamber, these are already in aggregate the largest providers of business services in the UK.

The need is for a well defined network of perhaps 60 larger chambers covering the whole country, each having a large enough business-catchment to be able to support a wide and advanced range of services. Already chambers are merging or otherwise grouping themselves to be able to achieve this "critical mass". Small chambers which may feel excluded from this process should not feel so. They are already important in terms of local representation. If they wish to be part of the local infrastructure for chamber service-delivery, they will be welcomed as the fully local presence (with its own identity, knowledge and history) of a larger, networked grouping.

Ron Taylor,
director-general,
Association of British Chambers of Commerce,
Sovereign House,
212 Shaftesbury Avenue, WC2

Pioneer for reunification

From Mr Bernhard Friedmann.

Sir, An article by Mr Jochen Thies in your Germany Survey ("The media: weak showing," October 29) says that as early as 1988, when I was still a member of the Bundestag, I suggested that German reunification seemed possible.

I would like to add a few points in clarification of my role.

As early as autumn 1986 I said in discussions with Chancellor Helmut Kohl that the government of the Federal Republic of Germany had to work towards reunification. The starting point for my thoughts on this matter was that President Reagan and Mr Gorbachev, at their meeting in Reykjavik, had decided on the "double-zero option" – that is the destruction of medium-range missiles. This concerned, in particular, the very weapon systems which were designed to protect West Germany as part of the nuclear deterrent strategy.

I said that if the federal republic were no longer to be protected by means of missiles, then it had to be protected in some other way. I was guided by the idea that weapons exist above all because there is tension. At that time the main reason for such tension was the division of Germany and of Europe.

I therefore concluded that the removal of this division of Germany and of Europe – that is the reunification of Germany – would be a move towards greater security. This was the point I made for three years in public debate in almost all the West German media.

What has happened since has shown how right my ideas were.

I put them forward, not as the chance remarks of a parliamentary back-bencher, but as the arguments of someone who had experience of a wide range of parliamentary duties. These included being accountable for the defence budget and being chairman of the committee on arms expenditure and the budget control committee.

Bernhard Friedmann,
12, rue Alcide de Gasperi,
Luxembourg

Criticism with sexist overtones

From Ms Marjorie Crocker.

Sir, I was rather surprised to read your uncharacteristic editorial ("A question of responsibility," November 2).

Mrs Thatcher's statesmanship is called into question by her "intemperate and ill-considered remarks in Rome". Rather like, would you not say, the intemperate and ill-considered remarks in your editorial comment?

Take for example the sexist overtones of "after Mrs Thatcher had thrown the china". Would this have had the same impact and, indeed, even have been attributed if the prime minister had happened to be male? And then again the reference to "her cheap nationalism". Cheap jibes do not become a reputable financial newspaper.

Since this is the language of her critics, it is not surprising that she, too, sometimes resorts to equal stridency.

Marjorie Crocker,
70 Townsend Lane,
Harpenden, Hertfordshire

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SCIENTISTS ISSUE WARNING

Greenhouse gases 'must be reduced'

By John Hunt, Environment Correspondent, in London

THE WORLD faces catastrophic global warming unless swift action is taken to reduce concentrations of "greenhouse" gases, scientists have warned environment ministers who meet in Geneva tomorrow for the world climate conference.

The scientists, meeting in Geneva last week, agreed that industrialised countries could cut emission of carbon dioxide by 20 per cent by the year 2005 through measures such as energy conservation and switching to natural gas.

Their warning puts pressure on delegates from more than 100 countries to the conference, which is under the auspices of the World Meteorological Organisation and the United Nations Environment Programme. Representatives will begin work on a global convention to reduce greenhouse gases, mainly carbon dioxide, which are said to cause global warming.

Under such a convention, countries would have to change patterns of economic activity to reduce energy consumption. The introduction of incentives to encourage energy saving and carbon taxes to penalise waste of fossil fuels would be among the options.

If successful, the conference would be a turning point in combatting global warming which, according to worst forecasts, could lead to a rise in sea levels, a change in climate and the uprooting of populations.

The scientists' call for drastic reductions in greenhouse gases goes further than targets adopted by industrialised countries. Britain has agreed to stabilise emissions of carbon dioxide by the year 2005, five years later than the common target of the EC. Germany says it can make cuts of 25 per cent by 2005, while Austria, Denmark, Italy, Australia and New Zealand say they can achieve 20 per cent by that date. Japan has said it can stabilise emission levels per head of population by the year 2000.

The US has not agreed to any targets and continues to doubt the verdict of three international groups of scientists on the Intergovernmental Panel on Climate Change.

The US is in danger of being isolated at the conference, although it could find allies such as the USSR, Saudi Arabia and Turkey. There could be a split with the majority of countries backing a Scandinavian call for firm targets and swift action.

Eight industrialised countries – US, UK, Canada, France, Hungary, Japan, Poland and Soviet Union – release half the world's energy-related carbon dioxide emissions.

China and India, heavily dependent on the use of coal, will seek financial aid and the transfer of environmental technology from the western countries to help them overcome their problems.

The conference follows a series of international meetings stemming from a gathering of scientists in Toronto in 1988. They warned that climate change could have an effect "second only to a global nuclear war" and called for a world-wide cut in carbon dioxide emissions of 20 per cent by the year 2005.

Bonn to lift target on emissions

THE GERMAN cabinet will this week raise its target for reducing carbon dioxide emissions from 25 per cent to 30 per cent by the year 2005, according to officials in the Bonn Environment Ministry, writes David Goodhart in Bonn.

In June the cabinet agreed to a 25 per cent target for west Germany alone.

However, the former east Germany was an extremely wasteful user of energy with the highest per head carbon dioxide emissions in the world, 22.4 tonnes per head annually.

A swift and significant reduction will thus be easy to achieve. Energy use is already declining in east Germany thanks to the closure of industrial capacity.

Brussels meeting crucial for Uruguay Round

By Tim Dickson in Brussels

EUROPEAN Community farm and trade ministers gather in Brussels today for what has been widely dubbed a "make or break" meeting in the Uruguay Round.

Six EC council sessions in four weeks have so far failed to reach any conclusions on farm subsidy cuts, thereby threatening to scupper four years of painstaking negotiation in Geneva over ways to free global trade in services, textiles, intellectual property and other key sectors.

On the table again will be the European Commission's proposal for a 30 per cent cut in supports over 10 years – an offer which falls well short of demands by the US and such countries as Australia and New Zealand but which has proved too painful for EC member states to contemplate.

Opposition to the Brussels plan is spearheaded by the French and the Germans, who have argued that it risks undermining EC markets with a flood of cheaper imported food and that clearer commitments to compensate affected producers must be given.

Nineteen hours of discussion at the the most recent meeting in Luxembourg 10 days ago appeared to have allayed most of Bonn's fears.

But Mr Ignaz Kiechle, the German farm minister, was not prepared to endorse the package, while his French counterpart, Mr Louis Mermaz, still had doubts.

Following a brief and inconclusive discussion at the special summit in Rome, during which Mrs Thatcher, the British prime minister, and Mr Ruud Lubbers, the Dutch prime minister, berated their Community colleagues on the issue, the Italian presidency has been desperately seeking a behind-the-scenes solution.

Mr Renato Ruggiero, Italy's trade minister, has visited Bonn, Paris, London and Madrid over the last few days as part of a low-profile but potentially vital diplomatic initiative.

Details of Mr Ruggiero's discussions have been kept confidential, making the outcome of today's meeting all the more difficult to predict. The feeling in Brussels over the weekend was that failure is unthinkable given the high stakes, though there were no hints that any of the hard-liners were giving ground.

Interviewed on French television last week, for example, Mr Mermaz appeared to be repeating many of the same arguments he had used in previous councils.

Even if a compromise can be found today, much will ultimately depend on the reaction in Washington and other world capitals. The US has tied the whole Uruguay Round to a successful deal on farm subsidies; but it and others want a 75 per cent cut in internal farm supports by the beginning of the next century and therefore find even the Commission's original offer inadequate.

But it has become clear that the main interest of all the parties is some sort of EC consensus, however unsatisfactory, so that the real bargaining in Geneva can begin.

Rebels press Singh to step down as leader

By David Housego in New Delhi

THE JANATA DAL party of Indian prime minister V. P. Singh seemed in danger of splitting last night as rebels mounted further pressure on him to step down as both head of government and party leader.

Political observers agree that Mr Singh's government now faces certain defeat in a vote of confidence in parliament on Wednesday. Today Mr Singh holds a critical parliamentary Janata Dal meeting which will endorse his leadership or choose a successor.

These manoeuvrings came as a curfew was relaxed for some hours in the many towns in Uttar Pradesh, Rajasthan and Gujarat, where it has been in force for a week or more to prevent Hindu-Moslem clashes. Continuing violence, with at least seven people killed, was reported from these states and from Andhra Pradesh and Karnataka in the south.

Mr Devi Lal, the former deputy prime minister who was dismissed by Mr Singh, yesterday joined the rebels in calling for Mr Singh's resignation.

Mr Devi Lal and Mr Chandra Shekar, a former socialist and continuing critic of the prime minister, are both candidates for the party's leadership at today's meeting. They claimed to have the firm support of over 50 of the Janata Dal's 146 members of parliament – which under Indian law would enable them to split the party and create a new parliamentary group of their own.

Indian prime minister V. P. Singh emerges from a National Front alliance meeting yesterday

The rebels' goal is to form a new government with the support of Mr Rajiv Gandhi's Congress party. Mr Gandhi has assured them of his support. But President R. Venkataraman has privately indicated that he will not name a new prime minister from the rump of the Janata Dal.

He has also said that in the present tense atmosphere, with much of the country close to a religious civil war, he wants to avoid general elections. The widespread belief among politicians, however, is that these may be unavoidable. Mr Gandhi is, none the less, expected to be approached this week to form a new government.

Fears that the violence could intensify increased yesterday when Mr L. K. Advani, leader of the Hindu radical BJP party, said the seizure of the mosque at Ayodhya last week marked a "triumph" of "people's power" and called for the struggle to build the new Hindu temple to continue.

Mr Advani, who was detained for two weeks under the Internal Security Act, was set free ahead of Wednesday's vote in parliament and the meetings of the BJP parliamentary party that will precede it.

Gorbachev struggles to pacify nationalists

By Quentin Peel in Moscow

SOVIET president Mikhail Gorbachev may declare a state of emergency in the strife-torn republic of Moldavia after the killing of at least six demonstrators by local militia on Friday, the republican parliament was warned yesterday.

At the same time he is under bitter attack from the leaders of ethnic Russian minority groups throughout the Soviet Union for failing to defend their interests against the rising nationalist sentiment of non-Russian republics.

The declaration of a state of emergency would be made if the local authorities in Moldavia, split by militant factions of Romanian and Russian speaking nationalists, fail to control the situation, Mr Mircea Snegur, the republican president, told an emergency session of the assembly.

The Moldavian leader called on the Russian-speaking minority population, and the Turkic minority from Gagauz, to suspend their attempted secession. He also appealed to the Moldavian parliament to rescind its own nationalist decrees and set up conciliation commissions to resolve the increasingly bitter racial confrontation in the region.

Mr Gorbachev summoned leaders of all the factions in the republic to the Kremlin on Saturday, where he flatly rejected any attempts to divide the republic. But he criticised Moldavian nationalists trying to enforce unpopular language laws on the Russian-speaking minority.

Afterwards, Mr Nikolai Ryzhkov, Soviet prime minister, warned that the central authorities would take "more resolute steps" if local attempts to restore order were ineffective.

However, leaders of the "unity" movements from many of the outlying Soviet republics, representing mainly the increasingly anxious and bitter Russian-speakers, denounced both Mr Gorbachev for "sanctioning a civil war in Moldavia in the interests of world imperialism," and Mr Vadim Bakatin, the interior minister, for failing to protect the Russian population.

They agreed in Moscow to set up a single umbrella group to fight for their interests. Both the Russian-speaking population of the industrial towns of Tiraspol, Bendery and Dubossary, and the Gagauz minority, have attempted to secede from the rest of Moldavia because of the imposition of new laws covering language, citizenship, and sovereignty.

Japanese poll fails to lift doubts on Gulf force plan

By Robert Thomson in Tokyo

JAPAN'S ruling Liberal Democratic Party narrowly won an upper house by-election yesterday in what had virtually become a referendum on the party's controversial plans to send forces to join multinational troops in the Gulf.

The victory in central Aichi prefecture prompted Mr Ichiro Ozawa, the LDP secretary general, to declare that ordinary Japanese had shown their support for proposed legislation that would send Japanese forces abroad for the first time since 1945.

But the Japan Socialist party said the small margin, a low turnout, and the fact that the combined votes of the two opposition candidates exceeded those of the LDP, proved that most people opposed the UN Peace Co-operation Bill and the dispatch of non-combat members of the Japanese military.

Defeat in the highly emotional by-election would have embarrassed Mr Toshiki Kaifu, the prime minister, whose home is in Aichi, but the close result in a traditionally conservative prefecture is unlikely to enable the LDP to push through the legislation.

The Japanese parliament is in an extraordinary session due to end on Saturday, and Mr Ozawa said last night that the sitting should be extended for another 20 days to ensure that the legislation is passed.

The LDP controls the lower house, but needs the blessing of the opposition-controlled upper house for the proposal to become law.

After yesterday's victory in Aichi, the LDP has 113 of the 252 seats in the upper house, and will need an alliance with an opposition party to secure the passage of the bill.

With 99 per cent of returns counted Mr Yoshihisa Oshima had 833,371 votes, Mrs Michiko Goto of the JSP 793,030, and Mrs Yukiko Seko, Japan Communist party, 210,785.

Baker seeks Gulf backing

Continued from Page 1

with Iraqi president Saddam Hussein next weekend.

President François Mitterrand, visiting Egypt yesterday, held talks on the Gulf crisis with President Hosni Mubarak. Mr Mitterrand said France had responded "positively" to Egypt's request to forgive its military debt of some $2.8bn.

Washington has already moved to forgive Egypt's $6.7bn US military debt as a reward for Cairo's strong stand on the crisis.

On his return, Mr Mitterrand is today to meet King Hussein of Jordan, one of the few Arab leaders who has kept communications with Baghdad. On Saturday the king met Mr Tariq Aziz, the Iraqi foreign minister.

Syria, which has shown signs of waning support for the anti-Iraq alliance, said an armoured division was on its way to join the multinational force. Officials said in Damascus that up to 20,000 men were committed to the force.

Iraq, which has been attempting to drive a wedge through the multinational alliance, confirmed at the weekend its willingness to free all western and Japanese hostages in return for international undertakings not to attack.

The offer came from parliamentary Speaker Saadi Mahdi Saleh, who said Iraq would accept such an undertaking either from the five permanent members of the Security Council, or from just two of them.

At the same time, Iraq again rejected any withdrawal from Kuwait. Mr Saddam, in a speech to Arab labour leaders, implied that Iraq expected the US to invade Kuwait, warning: "We shall launch a counter-offensive to retain any part and destroy them in the process."

Mr Yasuhiro Nakasone, the former Japanese prime minister met Mr Saddam yesterday without immediately securing the release of any Japanese hostages. A total of 14 Germans and a Belgian were freed yesterday. Former West German chancellor Willy Brandt is due in Baghdad today.

Kuwaiti booty. Page 3

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	16	61	Berlin	F	5	41	Caracas	C	31	88	Faro	S	17	64	Islamabad	F	26	79
Algiers	F	20	68	Biarritz	F	11	52	Casablanca	C	19	66	Florence	S	16	61	Istanbul	F	21	70
Amsterdam	F	7	45	Bombay	S	30	86	Chicago	Dr	3	38	Frankfurt	C	7	45	Jakarta	C	32	90
Athens	F	25	77	Bordeaux	F	7	45	Cologne	Dr	6	43	Geneva	C	7	45	Jersey	F	11	52
Bahrain	S	29	84	Boulogne	C	9	48	Copenhagen	C	5	41	Gibraltar	S	17	63	Johannesburg	S	29	84
Bangkok	F	32	90	Brussels	F	8	46	Corfu	F	20	68	Glasgow	S	6	43	Lima	C	17	64
Barcelona	S	13	57	Budapest	S	7	45	Dallas	R	7	45	Helsinki	C	3	37	Lisbon	S	13	57
Beirut		–	–	Buenos Aires	R	27	82	Dublin	C	8	46	Hong Kong		–	–	London	F	6	43
Belfast	C	7	45	Cairo	S	27	82	Dubrovnik	F	18	66	Innsbruck	R	7	45	Los Angeles	S	12	54
Belgrade	S	15	59	Cape Town	S	20	68	Edinburgh	S	7	45	Inverness	C	6	43	Luxembourg	C	5	41

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	F	21	70	Milan	S	11	52	Nicosia	S	25	77	Salzburg	C	3	37	Tenerife	F	25	77
Madrid	S	11	52	Montreal	F	13	55	Oporto	S	14	57	San Francisco	S	11	52	Tokyo	[illegible]	16	61
Majorca	[illegible]	13	55	Moscow	C	5	41	Oslo	F	7	45	Seoul	F	20	68	Toronto	F	12	55
Malaga	S	17	64	Munich	F	3	37	Paris	F	10	50	Singapore	F	29	84	Tunis	F	21	70
Malta	S	25	77	Nairobi	C	19	66	Peking	S	12	55	Stockholm	C	[illegible]	[illegible]	Valencia	S	15	59
Manchester	S	7	45	Naples	S	17	63	Prague	F	3	38	Strasbourg	C	7	46	Venice	S	12	55
Manila	F	32	91	Nassau	C	30	86	Reykjavik	Dr	6	43	Sydney	F	22	72	Vienna	F	7	45
Melbourne	S	17	64	New Delhi		–	–	Rhodes	F	22	72	Taipei				Warsaw	R	7	45
Mexico City	C	19	66	New York	F	15	59	Rio de Janeiro	F	33	93	Tangier	S	19	66	Washington	F	11	52
Miami	S	22	72	Nice	S	16	61	Rome	F	17	63	Tel Aviv	S	28	82	Zurich	C	5	41

Temperatures at midday yesterday C – Cloudy Dr – Drizzle F – Fair Fg – Fog H – Hail R – Rain S – Sunny Sl – Sleet Sn – Snow T – Thunder

THE LEX COLUMN

The Sky is the limit for BSB

The shotgun marriage of Sky TV and British Satellite Broadcasting has all the ingredients for a good TV soap opera, starring Mr Rupert Murdoch. Having undermined the financial stability of his News Corp empire by taking one big bet too many, his share price collapses. Then, just as his bankers are closing in, he approaches the high-class competition with a dazzling deal which apparently transforms his financial fortunes and leaves him in a strong position in the potentially hugely profitable UK satellite TV industry.

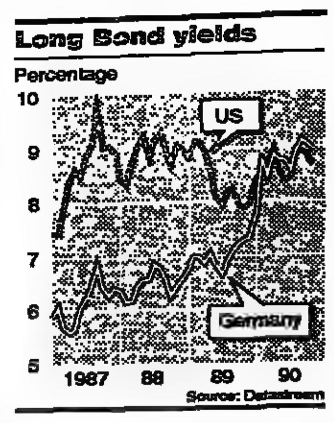
It is a good start to a business thriller which is bound to have all sorts of unexpected twists and turns before it runs out of air time. Will the government turn nasty towards one of its biggest supporters by referring the deal to the Monopolies and Mergers Commission? Will the old BSB shareholders sell out as soon as possible, or stay on and live happily ever after with News Corp, which much prefers 100 per cent control of its operations?. How will powerful US media groups, like Walt Disney, respond? Stay tuned.

News Corp appears to be the primary beneficiary from the deal. It gets 80 per cent of the first £400m dividends yet for accounting purposes is only shouldering 20 per cent of the losses (although not the liabilities). It removes well over A$1bn of borrowings from its balance sheet and stems the damage to its own profit and loss account caused by Sky's losses, which are running at an annual rate of close to A$300m, currently. It may be an accounting sleight of hand, but it is the sort of gesture which should go a long way towards restoring confidence in News Corp's bombed-out share price, at least temporarily.

The immediate benefit to BSB shareholders is that the risks of the project have been greatly reduced. The elimination of one set of overheads, the reduction in competitive promotional spending and the removal of customers' uncertainty over which system to go for, mean that there is a much better chance that the new venture will make money without the need for another cash injection. Without the proposed merger it was a near certainty that within the next few months BSB shareholders would have had to put up more money or cancel the project.

For a company like Granada, which has invested £66m and has guaranteed another £120m of bank loans, this could have been nearly fatal. Chargeurs, BSB's French shareholder, has already been able to write off its BSB stake, by taking a huge

Long Bond yields



Source: Datastream

gain on the sale of UTA to Air France. But the remaining BSB shareholders will be reluctant to follow suite. If this deal means that British Sky Broadcasting really can make decent money by the mid-1990's, then the business could be worth a minimum of £1.5bn, and investors like Reed will have more than trebled their money. Meanwhile, their downside exposure is now far less than Mr Murdoch's.

Brierley

One man's value investor is another man's corporate raider. Hence the delicate choice over the next seven days facing those shareholders in Mount Charlotte hotels who have not yet accepted the £644m bid from New Zealand's Brierley Investments. If the Brierley camp really are the southern hemisphere's best stock-pickers, and as financially conservative as they claim to be in their latest annual report, it would be foolish to take the 73p they are being offered. If, on the other hand, the bid turns out to be as mistaken a move as Brierley's abortive run at Cummins Engine of the US, or its attempted break-up of Vickers, then investors had best keep their distance.

But these are big ifs. On the one hand, Sir Ron Brierley's record has been superior to that of other Australasians, as witnessed by his shrewd play in Equity & Law three years ago. On the other, all the signs on Friday were that Brierley would end up with at least 80 per cent of Mount Charlotte. So those who stay will be in a pretty small minority.

On that score alone, staying with Mount Charlotte is risky. The obvious recent comparison is Rothmans. Since the Rupert family interests bought out Philip Morris's stake and took 69 per cent control last December, Rothmans shares have comfortably outperformed the rest of the stock market. But that is not surprising. The Rothmans tobacco cash flow and its luxury brand-name assets, such as its stake in Cartier and Dunhill, are first-class material. Yet even here liquidity is a problem. Only about 200,000 Rothmans shares are traded each day. The market in Mount Charlotte shares would be even thinner than that, and its balance sheet is certainly not as strong, with £650m of debt. As for cash flow, Mount Charlotte's medium and long-term potential is fine, but it is hard to see it making more than £55m in after-tax profits next year, a period when it could have £50m of capital spending to do.

On that score, the latest Brierley annual report is not comforting. The tone is cautious enough – BIL has been a net seller of equities for a couple of years – but the figures are less reassuring. Net debt of the BIL parent company was only NZ$2.2bn on June 30, with on top of that another NZ$100m of Swiss franc bonds, which is not hair-raising in itself. But even if Brierley ends up with only four-fifths of Mount Charlotte's share capital, BIL's net gearing is going to be more than 90 per cent: change a few of the assumptions, and it could be well over 100. On balance, Mount Charlotte is best left to Sir Ron.

Wall Street

On the eve of the mid-term US elections, Wall Street is in a far more fragile state than it was when Mr Bush won the presidency two years ago. Then US unemployment was standing at its lowest level for 14 years and non-farm employment was growing by over 300,000 per month. Now, US unemployment is rising, job growth is contracting, and the only question is how severe will be the recession. Some analysts are forecasting that next year's earnings on the S&P 500 will be less than in 1988-89 and mounting concerns about the health of some of the major players in the US financial system add to general investor unease.

US interest rates are heading lower and despite the oil-inspired rise in inflation, the US bond market has proved remarkably resilient with long yields slipping to 8.7 per cent. By most criteria the dollar is seriously undervalued and this should eventually show through in the profits of the big exporters. Meanwhile, one of the few comforting thoughts is that on past form US share prices generally rise during recessions.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday November 5 1990

INSIDE

Bankers reeling under lordly blow

Tempers are short and disappointment is high in London's international banking community this week. Last week's decision by the House of Lords that all local authority interest rate swap deals are illegal was a severe blow to banks which could cost them up to £750m. "Disappointed, frustrated and angry," is how one banker described his reactions to the decision. Deborah Hargreaves reports. Page 21

Securing a firm investment

Turning packages of loans into securities, long a common practice in the US, is at last taking root in Europe. Last week, Skandinaviska Enskilda Banken, the Swedish bank, became the first in continental Europe to securitise its mortgage loans. Tracy Corrigan reports on the trend. Page 23

Time warps gilt hopes

The UK gilt market is firmly convinced that lower interest rates lie ahead. Last week's developments – including the resignation of Sir Geoffrey Howe (left) and the Bundesbank's decision to increase its Lombard lending rate – mean that the timing of an interest rate cut may be delayed, however. Page 22

Borrowers feel the pinch

Japanese banks have expanded too fast, especially overseas, says Mr Yoh Kurosawa, the newly-appointed president of the Industrial Bank of Japan. Now they are slowing lending growth drastically, he says, and, as a result, costs for borrowers will rise both inside and outside Japan. Stefan Wagstyl talks to Mr Kurosawa about the outlook for banks and borrowers around the world. Back Page

Raymond Snoddy looks at behind-the-scenes talks which led to the BSB/Sky deal

Rivals join to create a tempting dish

THE dramatic merger of British Satellite Broadcasting and Mr Rupert Murdoch's Sky Television at the weekend was made inevitable by poor sales of both BSB Squarials and Sky dishes and the fear that little improvement was imminent because of recession.

Although several BSB shareholders had been "thinking the unthinkable" for some time, the battle against Sky might have continued if the sale of Squarials had been on track to hit a 400,000 goal by Christmas. It is believed that BSB's French shareholder, Chargeurs, was keen to fight on.

An alternative plan to the merger would have involved either Mr Ian Irvine, deputy chief executive of Reed International, or Mr Frank Barlow, chief operating officer of Pearson, becoming BSB's executive chairman on an almost full-time basis.

In the end, the four leading partners – Granada, Pearson (publishers of the Financial Times), Reed and Chargeurs – were heavily influenced by the fact that despite enormous promotion Squarial sales did not rise above 6,700 a week. BSB would have been lucky to reach 200,000 homes with their Squarials by Christmas, instead of the stated goal of 400,000. A December performance target set by the banks for drawing down further tranches of a £450m loan might have been met, but there was little chance of meeting the next one in March.

The shareholders also saw an opportunity to get a deal on reasonable financial terms. Mr Murdoch was at his weakest. The bankers were believed to be on his tail to get debts down. Give Mr Murdoch time to recover, the argument went, and he might refinance and turn Sky into an even more formidable opponent.

As a result of the deal, signed at 3.10 am on Saturday morning:

● A strong satellite television operation will be created. For the UK, it will be a near monopoly;

● The financial prospects and the share prices of those involved should be enhanced;

● Astra and PAL, the existing TV standard, have won a victory over the more sophisticated D-Mac system used by BSB. The deal marks the virtual end of D-Mac as a European satellite standard.

The origins of the deal can be traced to a dinner in a private suite at Claridges Hotel in London on July 24, barely two months after the delayed launch of BSB. The dinner had been set up by Mr John Veronis, publisher turned investment banker. He brought together Mr Murdoch and Mr Peter Davis, chairman and chief executive of Reed International, who spent most of the evening talking about the near impossibility of merging.

But the same thoughts had occurred to others. In July Mr Barlow submitted a paper to the Pearson board recommending a merger between BSB and Sky. He warned, however, that BSB had to be fully funded to appear to be a serious rival to Sky.

By the beginning of last month, the BSB shareholders were ready to open serious discussions. Mr Irvine, who is to be the first chairman of the new joint company, British Sky Broadcasting, was dispatched to Australia. In talks at his ranch outside Canberra on October 15 and 16, it was agreed in principle that the deal should be 50-50 and that Mr Sam Chisholm, the present chief executive of Sky Television, should be managing director of the new venture. Mr Murdoch also argued for the Astra satellite system and PAL instead of the D-Mac standard.

When the talks convened last week, this time at the Lucknam Park Hotel outside Bath, several BSB shareholders were forced to admit that Sky technology and, in particular, its smart card subscription technology, was much better than they had thought.

Some BSB shareholders were already convinced that Astra and PAL would have to win in a merger, because otherwise Mr Murdoch would come under the domestic satellite regulations of the Broadcasting Act. The government has made it clear it intends to use the Act's cross-media ownership provisions which prevent owners of national newspapers in the UK holding more than 20 per cent of a commercial television operation.

Like the ITV companies, owners of a domestic satellite operation such as BSB will also be subject to a special Treasury levy once they make a profit – and the new service could do so within two years.

A row over money almost torpedoed the deal last Sunday. Mr Murdoch was holding out for a better deal. Mr Barlow and Mr Alex Bernstein, chairman of Granada, said no. The merger was put back together last week.

The terms agreed envisage the old BSB partners putting up £70m equity and Mr Murdoch investing £30m as working capital. BSB will guarantee a £100m loan and there will also be a £200m project loan.

The first £400m of distributable profits will be paid out 80:20 in favour of News Corporation. They will then be divided 50:50 for twice the period it took to achieve the first £400m. Then it will become 80:20 in favour of the old BSB shareholders for a final £400m before equality is reached.

Mr Derek Lewis, managing director of Granada said yesterday: "It's a very good deal." Mr Barlow of Pearson said: "Two bad businesses will make one marvellous business."

Both insist there will be no need for writeoffs of their investment in British Satellite Broadcasting and that assets and liabilities will be rolled up into what they believe will now be a profitable company. It is even possible that the new company, British Sky Broadcasting, could be floated in five years' time.

The biggest smile of all yesterday was on the face of Mr John Jackson, chairman of Cambridge Electronic Instruments and of Celltec, who bid unsuccessfully with a consortium for the franchise won by BSB. The consortium included Mr Murdoch and News International, which then controlled Sky.

At the hearing Mr Jackson was asked one final question by Mr John Whitney, the then director general of the Independent Broadcasting Authority: "If we gave you the franchise wouldn't it just be a mothership for Sky?"

"I knew then we were dead and that we had lost," said Mr Jackson. If Mr Murdoch had been included in the first official venture, he says, Astra might never have got his support to be launched.

'Thinking the unthinkable': A merger was discussed just two months after BSB's launch

Fiat 'held merger talks with Chrysler'

By Martin Dickson in New York

A FULL merger of car operations was one of the options discussed by Fiat of Italy and Chrysler of the US in year-long talks which have just ended without agreement, according to Mr Giovanni Agnelli, the Fiat chairman.

The two companies announced on Friday that they had terminated discussions on "potential joint venture operations and other possible business arrangements," blaming the current uncertainties of the world economy.

The companies had never spelled out the substance of their discussions but Mr Agnelli said the possibilities had ranged from a full merger of car operations to joint ventures in manufacturing and distribution.

He said a link-up between the two had seemed of interest. Each was "mono-continental": Fiat's operations are almost entirely in Europe while Chrysler, the smallest of the big three US car producers, is the only one of the trio not to have a large European operation.

Mr Agnelli said Fiat was not holding discussions with any other manufacturer. Company officials stressed that Fiat had many opportunities for European growth, most notably with its aggressive expansion into eastern Europe.

But the failure leaves Chrysler still facing difficulties: it is losing US car market share, is making little profit and must fund a large capital spending programme to bring in a new series of vehicles which will not hit the market until 1992-3.

Mr Lee Iacocca, Chrysler's chairman, said in a statement on Friday that the talks had been abandoned because the "current timing would be lousy". Overwhelming obstacles had been created by global economic uncertainties, rising oil prices and a slowdown in sales in both the US and European auto markets. Chrysler declined to elaborate.

Mr Agnelli later said that a merger would have compounded the current economic difficulties.

He said the discussions had started about a year ago when Mr Iacocca, on holiday in Italy, visited him in Rome. A full merger of the car operations would have involved an equity investment in Chrysler with Fiat the majority partner. However, he said that the discussions never got as far as discussing financial details.

The remarks left unclear whether a merger had been on the table all along, or whether ambitions were scaled down some time ago.

Slim pickings for satellite's culture vultures

By Raymond Snoddy

AS SOON as news of the merger broke, the calls started coming in to BSB headquarters from Squarial owners: what was going to happen to their operas and ballets on the NOW channel?

NOW, the documentary and cultural channel, is likely to be a casualty of the deal. Once Sky Television's four channels and BSB's five are combined into a new five-channel service with a more popular slant, opera and ballet are likely to feature less.

However, most satellite television viewers should benefit from an end to the uncertainty of recent months and from simpler technology. No longer will they have to have two pieces of incompatible equipment to watch all the top Hollywood films. Just as video only took off after VHS won the commercial battle with Betamax, so a resolution of the BSB/Sky technical battle should boost audiences and ultimately the amount of money available for programmes.

The more than 100,000 homes who have Squarials will get replacement 60cm dishes when the new service becomes available on Sky's Astra satellite.

Mr Andrew Knight, executive chairman of Mr Murdoch's News International, said yesterday on the TV-am news programme: "They have in good faith bought their Squarials and so we would stand by them and say, 'Look, we'll do an exchange programme for you'."

Existing and new satellite television viewers will be able to see two subscription channels. One will be a "gold" or premium channel, with all the hit films and exclusive sporting events such as world boxing titles.

The second "silver" movie channel will have a more varied range of films, old and new, and will be less expensive, with a discount price for viewers who take both.

The sports channel will consist mainly of BSB's sports channel – Mr Murdoch concedes it is the better of the two – but the entertainment channel will be Sky One, with some elements of BSB Galaxy. The fifth will be the well-regarded Sky News, the 24-hour news channel.

"It means now there is a real chance of competition to ITV," said Mr Murdoch.

The merger could also reduce the size of the bids made by those who participate in next April's auction for 10-year commercial television franchises, to run from the beginning of 1993.

Lex, Page 18

Economics Notebook

Just two cheers for the EMS

FOUR weeks is a short time to judge a system.

But sterling's performance since it became a member of the exchange rate mechanism of the European Monetary System has provided strong support for the argument that the EMS does provide a "zone of monetary stability".

By Friday evening, the pound's trade-weighted index was standing at 94.2, barely changed from the 94.1 level recorded just ahead of the October 5 announcement of Britain's decision to become a full EMS member.

Admittedly, sterling quickly lost the big early gains that followed ERM entry. But its ability to hold to pre-EMS levels is no mean feat.

The pound has weathered a considerable narrowing in the official interest rate differential between Germany and Britain. This resulted from the one percentage point cut in base rates at the time of ERM entry and last week's half percentage point rise in the German Lombard rate.

Outside the ERM, it might have been expected to suffer more from the prime minister's pyrotechnics following the Rome summit last month and Thursday's surprise resignation of Sir Geoffrey Howe as deputy prime minister. There was some deft footwork by the Bank of England on the domestic money market last Friday and some intervention in support of the pound in Far Eastern currency markets, but no whiff of an old-fashioned sterling crisis.

Whether such stability persists remains to be seen. And there is, meanwhile, a downside to EMS membership. Until last Thursday, the Treasury and Bank of England could believe the main obstacle to a cut in base rates from 14 per cent was their judgment as to the timing for a relaxation of monetary policy in the face of continued inflationary pressures. The Bundesbank's action that day showed how changes in UK monetary policy will depend on developments in Frankfurt and Bonn.

Although the Bundesbank explained its move as technical, it could also be seen as a shot across the bows of Chancellor Helmut Kohl's government and a warning against its inclination to finance German union through large-scale borrowing. The problems of German unity have become a potentially worrying constraint on British economic policy when signs of recession in the UK are increasing.

Hard ECU Choice

The proposals of Mr John Major, the UK Chancellor, for a "hard Ecu" alternative to the Delors plan for a single European currency and central bank were looking rather friendless last week following Mrs Thatcher's remark on Tuesday that, in her view, "it would not become widely used throughout the Community".

But there were signs of support for the hard Ecu from a surprising quarter. Mr Stefan Collignon, the director of research at the Association for the Monetary Union of Europe, has proposed that the hard Ecu could play a role in bringing about economic and monetary union through a process which he calls "progressive participation" of nations in Emu.

Mr Collignon's involvement with the hard Ecu is unexpected because his employer has been mainly concerned with ensuring that the 11-year-old basket Ecu should be the new single European currency. The association was set up under the auspices of the former West German chancellor Helmut Schmidt and former French president Valéry Giscard d'Estaing, both of whom were instrumental in creating the EMS. The association draws most of its support from businesses on the European continent.

Mr Collignon's idea is that the hard Ecu could become the single currency in a core group of EC countries whose economies have converged sufficiently to allow them to contemplate early economic and monetary union. These countries – Germany, France, the Benelux countries, and possibly Denmark – would hand over their monetary policy to a European central bank.

The other EC nations would also be members of the central bank, but would not have full voting rights. These "soft currency" members of the Community would introduce the hard Ecu as a parallel currency within their borders. According to Mr Collignon – who says that the idea is his own rather than that of the Association – the British notion of a European Monetary Fund to manage the hard Ecu would also survive. The European central bank could play the role of the EMF vis-a-vis the soft currency EC nations. These countries could be encouraged to achieve membership of the core group by seeing at close quarters what they were missing without full voting rights in the EC central bank.

It must be said that Mr Collignon's ideas have not found favour in Britain. Officially, they seem to be viewed as a distraction ahead of the December Intergovernmental Conference on Emu. That is where, despite all the turmoil of the past 10 days, Britain will be pressing its hard Ecu as an evolutionary alternative to the Delors programme.

Sir Michael Butler, the director of Hambros Bank who helped devise the hard Ecu, has condemned the Collignon plan as "divisive and destructive". He says it would mean Emu starting with only half the EC member states and be contrary to the wishes of the those outside the core group. Although Mr Collignon claims otherwise, his plan is seen as just another form of a "two-speed Europe", with all the risks that would entail for London's position as Europe's leading financial centre.

However, the episode also illustrates how Mr Major risks being hoist with his own petard. He has always maintained that he believes in choice and that the hard Ecu is all about choice. What would he do, if against all odds, the core members of the EC chose the hard Ecu for their monetary union and in so doing consigned Britain to the second tier of the Community?

TUC Nostalgia

Last week's abortive call from the Trades Union Congress for top-level consultations among employers, trade unions and the government over the effects of European integration on Britain caused some puzzlement in Bonn.

For in putting forward his idea at the National Economic Development Council, Mr Norman Willis, the TUC general secretary, implied that such a "concerted action" committee was operating and helping to determine policy in Germany.

A spokesman for the Bonn economics ministry confirmed that such a forum had existed. But that was in the 1970s, when it had ended in acrimony and nobody had since shown any interest in reviving it.

Peter Norman

Economic diary, Page 14

Japanese banks lose top IBCA rating

By Deborah Hargreaves in London

IBCA, the European credit rating agency, has downgraded six Japanese banks due to a drop in their profits following the decline of the Tokyo stockmarket. ratings of Dai-Ichi Kangyo, Fuji, Mitsubishi, Sumitomo, Sanwa and Industrial Bank of Japan, have been lowered from triple A to AA plus.

The downgrading by IBCA is in line with moves made by the two US agencies, Moody's and Standard & Poors, to lower the ratings on Japanese banks. However, both US agencies still maintain a triple A rating on Industrial Bank of Japan.

The fall in the equity market has sparked concern over Japanese bank profits. Banks can no longer rely on the stockmarket to raise equity and generate trading profits. To compensate, they should be able to raise margins on lending, but the banking environment in Japan may make this difficult.

In addition, while the quality of Japanese banks' assets has traditionally been strong, the sharp rise in interest rates accompanied by the fall in property values could cause problems. The Bank of Japan has estimated that property prices may drop by 20 per cent.

The exposure of Japanese banks overseas is also likely to cause problems. Many banks are exposed to vulnerable sectors in the US such as the property market and highly-leveraged transactions.

The European agency says there are now only six banks with a triple A rating from IBCA, Moody's and S&P. These are Union Bank of Switzerland, Credit Suisse and Swiss Bank, Rabobank in the Netherlands, Germany's Deutsche Bank and Barclays Bank in the UK.

Polly Peck fruit side causes concern

By David Barchard in Istanbul and Clay Harris in London

DOUBTS ARE growing about the strength of the fruit exports on which Polly Peck International's extraordinary profitability was based.

Estimates of profits last year from Meyna, Polly Peck's fruit business in Turkey and Cyprus, range from £30m to £70m. So far, however, neither Polly Peck's administrators nor a team of investigators from Coopers & Lybrand Deloitte appointed by the company before it was placed in administration, have been given access to the records of the fruit business.

Officials of Meyna, which is headed by Mr Fahrettin Otluoglu, have been unavailable to discuss the company's affairs since August. Last week, his secretary in Istanbul said Mr Otluoglu was in a constant series of meetings and unable to find time for an interview.

"The fact that they will not see the auditors is creating doubts in everyone's minds," said one source in Istanbul close to the investigation.

Competitors of Meyna, which is based in Mersin, on Turkey's eastern Mediterranean coast, say they believe the company's plant has been at a virtual standstill since August.

"Very little activity has been going on at Meyna for several months, partly because of the season and partly because of the Gulf War, but we simply don't fully know why things seem to have ground to a halt there," another fruit marketing company said yesterday.

He said Meyna's share of the local market – which is just over half the national Turkish market – is believed to be around 30 per cent. This is considerably lower than previous estimates in Istanbul and London. These have assumed that Meyna had more than half the total Turkish fruit export market, which was worth $976m (about £500m) last year.

Mr Rauf Denktash, president of the breakaway Turkish Republic of Northern Cyprus, warned at the weekend that the Turkish Cypriot authorities would step in and nationalise Polly Peck's Cyprus operations if they were in danger of being shut down. However, he appeared not to rule out an orderly disposal of the group's assets by the administrators.

Mr Richard Stone of Coopers, one of the administrators, and Mr David Kidd, a partner of Cameron Markby Hewitt, the London firm of solicitors assisting Coopers, are expected to fly to Cyprus tomorrow .

Because Polly Peck promises to be the most complex administration yet undertaken under the relatively new insolvency procedure, the three administrators have received court approval for a revised division of responsibilities.

Mr Christopher Morris of Touche Ross has taken over the role of investigating the conduct of present and past directors, a routine part of many administrations.

He was originally appointed as the third administrator solely to deal with any claims made personally against Mr Asil Nadir, Polly Peck's chairman. This was intended to avoid any appearance of conflict of interest as Coopers, of which Mr Stone and Mr Michael Jordan, the other administrator, are partners, had previously worked for Mr Nadir.

Mr Morris's expanded duty was being presented yesterday as evidence that the administrators were still hopeful of salvaging at least part of Polly Peck as a going concern. While Mr Stone tries to gather information in Turkey and Cyprus, Mr Jordan acts as the London-based co-ordinator.

On Friday, the Serious Fraud Office searched Polly Peck's City offices in Commercial Road under the same warrant with which it raided the Mayfair headquarters on Tuesday.

In an interview broadcast on BBC TV last night, Mr Nadir portrayed Polly Peck as the victim of "bear raiders" selling shares they did not own. He also said: "I am in a position to be able to deal with my personal liabilities." He bought shares worth £35m before the collapse of Polly Peck and is now being sued for non-payment by stockbrokers.

On Friday, staff at Mr Nadir's Istanbul newspapers who had been expecting their salaries were instead given letters telling them that staff and the company would have to show mutual support in difficult times.

Kalamazoo turnround to profit

KALAMAZOO, the office stationery and business systems company controlled by the Kalamazoo Trust, achieved a turnround in the year to July 31 with pre-tax profits of £1.3m compared with a loss of £4.1m last time.

Dividends have been reintroduced with 1p for the year, payable from earnings per share of 2.2p (nil).

Mr Kenneth Dibben, chairman, said that 60 per cent of sales and profits came from computer-related activities. Product development was a key to future success as would be the ability to deliver services into mainland Europe.

Total income was £62.5m (£64.55m). Continuing businesses made £3.7m profits (£705,000 loss), while discontinued activities incurred losses of £732,000 (£433,000).

Interest charges increased to £1.33m (£800,000) and there were exceptional severence, redundancy and reorganisation costs of £342,000 (£2.14m). The Kalamazoo Trust bonus was £226,000 (nil).

New plant blamed for losses at Monarch Resources

By Kenneth Gooding, Mining Correspondent

PROBLEMS WITH its recently-opened US$11.3m (£5.8m) tailings (waste) retreatment plant at Mocupia Gorge near El Callao were responsible for Monarch Resources, the London-quoted gold exploration company with operations entirely in Venezuela, falling into the red for the first six months of 1990.

The loss, before and after tax, worked through at US$3.76m. In the same months last year Monarch made a pre-tax profit of $281,000.

Mr Robert Kendrick, chief executive, said the problems had been overcome and since August the plant had been working at above its design capacity. It would produce a cash flow of between $300,000 and $400,000 a month from now on.

Monarch has signed a memorandum of understanding with Cyprus Minerals, the US mining group, to explore and develop Monarch's La Camorra and Canaima properties. A joint venture will be owned 51 per cent by Cyprus and 49 per cent by Monarch but any profits will be equally shared.

Cyprus has six months from the time it starts exploration, probably in January, to decide whether to develop a mine at La Camorra.

If it goes ahead, Cyprus will fund the first $15m of development. Monarch will fund the next $5m and any additional expenditure will be shared equally.

Mr Kendrick said he expected expenditure would not exceed $20m. Turnover during the six months was $1.618m ($0.575m). Expenditure of $4m, mainly on La Camorra, was capitalised in the period.

Monarch's net current assets and net cash at June 30 were $6m and $5.6m respectively.

Upton & Southern £0.73m loss

LOSSES CONTINUE at Upton & Southern Holdings, department store operator, and for the 28 weeks ended August 14 amounted to £734,000.

The corresponding profit was £115,000 but that turned into a loss of £800,000 for the whole of 1989-90.

Turnover for the period fell from £7.11m to £5.48m and there was a trading loss of £277,000 against a profit of £320,000; interest payments trebled to £330,000 (£105,000). Fully diluted loss per share worked through at 8.06p (0.9p earnings).

Pioneer Mutual

The policyholders of Pioneer Mutual, the UK mutual life insurer, have voted to transfer the company's assets and liabilities to the newly-formed Swiss Pioneer Life, a subsidiary of Swiss Life.

The vote effectively demutualises Pioneer, clearing the way for Swiss Life to acquire its £15m ordinary share capital.

Burmah deal with Romania

By Andrew Bolger

BURMAH CASTROL, the UK lubricants, fuels and chemicals group, has signed a deal with the Romanian government to supply the state railway system with lubricants. It could be worth £50m over six years.

As well as the railways contract, Burmah Castrol will overhaul the lubricating production facilities at a state refinery outside Bucharest. When completed, the supply of Castrol oils for Romania could be switched to this domestic source.

Initially this would involve the railway contract for 10m litres a year, but it is intended to extend supplies by at least another 30m litres a year to cover the automotive market.

Burmah Castrol will this week issue its official offer document for Foseco, the British speciality chemicals and abrasives producer, for which it has launched a hostile cash bid worth £236.8m.

COMPANY NEWS IN BRIEF

AMERON BV has acquired the assets and business name of Prodorite, a member of the Yule Catto building products division. Ameron, based in the Netherlands, is a wholly owned subsidiary of Ameron Inc which is headquartered in California,US.

BLACKWOOD HODGE: Following approval of US anti-trust authorities, offer for company from BM Group has been declared unconditional and remains open.

BP PORTUGAL, a subsidiary of British Petroleum, is to make a Es2,000 cash per share bid for Industrias Carnes Nobre. The 1.88m shares are quoted in Lisbon and Oporto.

BRENT CHEMICALS has acquired Pangolin Lack-und Farbenfabrik, which makes materials for printed circuit boards, for DM3m (£1.02m) cash.

CADBURY SCHWEPPES has acquired Griffin's Confectionery business, including Griffin's factory at Avondale (Auckland), from Britannia Brands NZ and the sale of its Hudson Biscuit operations to Britannia. The acquisition and sale will be effective from December 1 1990. Together with the exchange of businesses, Cadbury Schweppes will pay a net consideration of NZ$2m (£620,000).

LAST WEEK'S CROSS BORDER DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Fuji Xerox (Japan jv)	Asia-Pacific divisions of Rank Xerox	Photocopiers	£135m	Run better from Tokyo
International Marine (US)	Benjamin Priest (UK)	Engineering	£47.3m	Unwelcome break-up bid
North West Water (UK)	Envirex (US)	Waste water treatment	£36.6m	NWW reveals intl ambitions
North West Water	Jones Environmental (Ir) & Water Engineering (UK)	Waste water treatment	£12.5m total	Sales by Jones Group (Ireland)
Dentsu (Japan)	Collett Dickenson Pearce (UK)	Advertising	£20.5m est	Dentsu takes 40% stake
VME Group (Netherlands-based)	Akermans Verkstad (Sweden)	Excavation equipment	£46.4m	Recommended offer by US/ Swedish group
Sky TV (Australian-owned)	British Satellite Broadcasting (UK)	Satellite TV	N/A	Mr Murdoch has his way
Oyo (Japan)/Chori (Japan)/Soviet partners	Oyo Geo Impulse (Soviet jv)	High-tech instruments	£4.3m	First Japan-USSR high-tech investment
Great Universal Stores (UK)/Metro (Germany)	CCN Systems and Company KG (German jv)	Financial services	N/A	Another entrant to fast-growing market
Philipp Holzmann (Germany)	Tilbury (UK)	Contracting and housebuilding	£16.6m	German stake up to 29 per cent

Source: FT Mergers & Acquisitions International

The merger between satellite TV broadcasters Sky and BSB must set a new record for industry consolidation, writes Brian Bollen. Sky has been broadcasting in its current format for less than two years, BSB for six months. Seldom can spare capacity have been so quickly removed.

But as Australia's most famous American Rupert Murdoch has been saying for at least a year, the decision of BSB to join his Sky TV on the Astra satellite makes compelling commercial sense. The biggest worry now must be the threat of a referral to the Monopolies & Mergers Commission.

The new entity will safeguard its interests best by diverting attention away from its monopoly of UK satellite TV and concentrating it instead on the more realistic threat it poses to the BBC/ITV duopoly.

Elsewhere, manufacturing and service industries shared the spotlight. Germany's Philipp Holzmann joined the growing list of mainland European companies with significant strategic holdings in British contractors. Holzmann took its stake in Tilbury to 29 per cent from heavily-borrowed Scottish construction company, Lilley, which sold the rest of its 29.9 per cent to German investment group Advanta.

In the construction equipment sector, Netherlands-based VME Group made a recommended cash offer for Sweden's Akerman Verkstad.

Speculation about West Midlands engineering group Benjamin Priest came to an end with the launch of an unwelcome break-up bid from International Marine, a private US marine equipment company.

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COMPANIES AND FINANCE

Lords ruling clobbers bankers

Deborah Hargreaves on the fall-out in the £70bn swaps market

The City's international banking community is still reverberating from the blow that hit it on Thursday when the House of Lords ruled that all local authority interest rate swap deals are illegal.

The decision could cost the banks up to £750m and, additionally, they will have to pay millions of pounds in legal fees if they want to force any compensation at all. "Disappointed, frustrated and angry," is how one banker described his reaction to the decision.

Seats in the Law Lords committee room will be hard to come by this morning when the Lords hear evidence on two more arguments relating to the case. But the banks are unlikely to be cheered by anything they hear. It would be highly unusual for the Lords to reverse their provisional decision on the case, especially as it has been widely publicised.

The case involves an appeal from the London Borough of Hammersmith and Fulham and its auditors over the council's £3bn activities in the UK interest rate swap market. Exactly a year after the district court ruled that all swaps entered into by local authorities are illegal, the House of Lords has reiterated that view.

The Lords' decision reverses a previous ruling by the court of appeal which partially sanctioned the council's activities by allowing transactions that are linked to management of the authority's debts. It ruled that those deals used for trading purposes were still illegal.

Some 78 councils were engaging in swap deals two years ago, but few threw themselves as wholeheartedly into the market as Hammersmith and Fulham. As well as plain swaps, that council got itself embroiled in such injudicious practices as selling a bank the option to lend it some money at a particular interest rate.

The bank would obviously only take up that option if general interest rates were lower – it could then force a loan on to the council at a rate higher than base rates. For this privilege, the bank would pay the council an upfront fee, which was initially booked as income in the council's accounts. The auditor, however, later forced councils to amortise the sum over the life of the deal.

Hammersmith made £12m from the banks in this and other similar transactions, but it owes them closer to £300m which is why it wanted the court to declare all its deals illegal.

Other councils such as Westminster had a few straightforward swaps on their books. These involve the exchange, between banks and authorities, of fixed interest rate payments for floating rates. Westminster actually made enough money to reduce its poll tax bills by £3 per resident.

But no money has changed hands since litigation began in February last year. The deals have been frozen which means obligations carry on piling up especially as interest rates have remained high.

Now the banks, which will probably be unable to enforce any of these transactions in light of the Lords' decision, will have to try to recoup some money by suing third parties such as council members responsible for the swaps, or by starting restitution proceedings for money they have already paid the councils.

The Audit Commission, the local authority regulator, wants the banks to sit down with the councils and try to unwind the transactions, giving back money that has already been paid by each side. However, in the spirit of acrimony that is currently running through many banks it is unlikely that anyone will be able to agree on amounts.

"Every bank will have to look at all its transactions with each local authority and decide whether to agree amicably or to start litigation," says Mr Christopher Style, partner at the City law firm of Linklater & Paines.

Since there are thousands of transactions, of which some are worth small amounts and others run into thousands of pounds, litigation could be a labyrinthine process. It is also likely to split the united front the banks have so far assumed since unity will be fragile in the face of individual claims.

"Every bank will have to look at all its transactions with each local authority and decide whether to agree amicably or to start litigation."

Even if the banks can establish a right to have their money back, it is not even certain that councils would have the funds available to pay.

The banks have mostly provided for losses resulting from the swap deals, but the Lords' view irks their commitment to the "my word is my bond," way of doing business. They have become much more legalistic since swap deals were called into question.

This has cast a shadow over the activities of building societies and any body which is not covered by the specific conditions of the Companies Act, in the £70bn UK swaps market. Nationwide Anglia, one of the UK's largest building societies, said it has to tie up all of its deals with assurances from the legal department. He called for legislation that will clarify the situation.

The banks, particularly the international institutions would also like to see some legislation to clear up loopholes in the market. Mr Mark Brickell, chairman of the International Swap Dealers Association and a banker at J. P. Morgan in New York, commented that for the financial markets which need a firm legal foundation, "uncertainties in cases like this where doubts about the proper interpretation of the law have persisted to the end are not helpful".

For local authorities, the ruling cuts them off from doing anything innovative in the money markets. "There will clearly be great difficulties in doing anything that's not straightforward borrowing," believes Mr Richard Harbord, chief executive and finance director at Richmond, Surrey. At the same time the swaps case has affected councils' access to funding. "There is a general feeling among treasurers that we have been paying more for our funds in the past year," he says.

Another local authority treasurer who said he was still receiving propositions from banks, said they were couched in legalese and often included a franking from the Audit Commission giving the green light for councils to use them.

However, the Audit Commission's approval is not always final. When Hammersmith and Fulham began to unwind its swap activities in July 1988, its so-called interim strategy was presided over by the Audit Commission. For this reason, the banks are trying to convince the Lords today that these contracts can be enforced even if others cannot. They are unlikely to have much success.

China Light lifts profits by 15% to HK$2.32bn

By John Elliott in Hong Kong

CHINA Light and Power, the Hong Kong-based electricity utility controlled by Lord Kadoorie, has announced after-tax profits of HK$2.32bn (US$297m) for the year to end-September, which is 15.1 per cent higher than last year's HK$2.02bn.

Turnover was 9 per cent up at HK$10.60bn from HK$9.76bn and operating profit rose to HK$2.65bn from HK$2.20bn.

Reflecting growing concern about business prospects in the next few years, Lord Kadoorie warned that growth in the 1990s would be slower than the 1980s which had been a "fast growing decade" for Hong Kong and China.

The company has an electricity supply monopoly in the Kowloon and New Territories areas of Hong Kong and also sells to the southern Chinese province of Guangdong.

Sales in Hong Kong rose by 6.5 per cent during the year to 17.04bn units but there was a 15 per cent decline in sales to China and overall total sales rose by only 4.8 per cent to 18.72bn units.

The Hong Kong figure included a 1.6 per cent drop in sales to manufacturing companies which was caused by generally difficult trading conditions in Hong Kong and by the continuing migration of Hong Kong industry in search of cheaper locations in China.

There were strong sales to domestic, commercial and government customers in Hong Kong, leading to a 10.6 per cent overall increase in these sectors.

The company has a 25 per cent stake in China's Guangdong Nuclear Power joint venture which is building a nuclear power station at Daya Bay adjacent to Hong Kong.

A final dividend of 27 cents a share has been declared, bringing the total for the year to 72 cents compared with 60 cents, after adjustments for share issues, in 1988-89. Three interim dividends of 18 cents a share are planned for 1991.

PFC down 20% in third quarter

By Robert Gibbens in Montreal

POWER Financial Corp, the main financial services arm of Montreal financier Mr Paul Desmarais's Power Corp of Canada, had third quarter earnings of C$41.8m (US$35.8m) or 45 cents a share, against C$51.3m or 57 cents a year earlier.

PFC owns 25 per cent of Pargesa, the Swiss group which owns a string of share stakes in European companies including 38 per cent of Groupe Bruxelles Lambert, Belgium's second largest holding company. PFC's profit decline mainly stemmed from a write-down at Pargesa.

PFC's nine-month earnings were C$176.3m or C$1.96 a share against $149.6m or $1.66 a year earlier.

● Domtar, the big pulp, paper and construction materials group, reported a C$60m loss for the first nine months, or 81 cents a share, against profit of C$51m or 49 cents a share a year earlier.

Domtar attributed the loss to the high Canadian dollar and poor North American markets for most paper products and for gypsum wallboard. The third quarter showed a loss of C$21m against a profit of C$8m or 6 cents a share. Sales fell 10 per cent to C$574m.

Domtar has sold most of its non-core businesses. It is not expected to turn round until late 1991 due to the recession.

● Higher fuel prices are causing orders for commuter aircraft to be cancelled or stretched out, says Pratt & Whitney Canada, the world's largest builder of small turbine engines.

This in turn has reduced PWC's order backlog for turbo-prop engines, and the company plans 1,200 lay-offs at its three Canadian plants starting in January. The brunt of the cutbacks, 8,500, will come at the main Montreal plant.

Earnings rise at SA suppliers

By Philip Gawith in Johannesburg

ASSOCIATED Furniture (Afcol) and Amalgamated Retail (Amrel), two large furniture and household goods suppliers within the South African Breweries group, both lifted turnover and operating profits in the six months ended September but suffered from high interest rates and weak economic conditions.

Amrel the furniture, footwear and clothing retailer which includes chains such as Furniture City, Lubners and ABC Shoes, lifted turnover, in comparable terms, by about 17 per cent to R476.6m ($186.6m). Sales of furniture and appliances benefited from the March 1990 relaxation in hire purchase restrictions.

Higher financing costs, a higher effective tax rate and lower profits in an associate company saw attributable earnings rise marginally from R7.4m to R7.7m. Earnings per share rose from 81 cents to 84 cents and the dividend was lifted to 28 cents per share from 27 cents, in line with group policy of paying a three-times covered dividend.

The management believes a modest increase in earnings for the full year is possible, given reasonable socio-political stability.

Afcol, which dominates the local furniture market, increased both turnover and trading profit by 13 per cent respectively to R401.9m and R35m. However higher finance costs and lower contributions from equity-accounted interests saw attributable earnings drop from R25.7m to R23.4m.

Earnings per share fell to 95.5 cents from 105.4 cents and the dividend, in line with a policy of being twice covered, was 47.5 cents, against 52.5 cents.

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Bank Ltd	14½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc.	16	● Smith & Williamson Secs.	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank Credit & Comm.	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of Cyprus	14	Girobank	14	Unibank plc	14
Bank of Ireland	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of India	14	HFC Bank plc	14	United Mizrahi Bank	14
Bank of Scotland	14	● Hambros Bank	14	Unity Trust Bank Plc	14
Banque Belge Ltd	14	Hampshire Trust Plc	15½	Western Trust	14
Barclays Bank	14	Heritable & Gen Inv Bnk.	14	Westpac Bank Corp.	14
Benchmark Bank	14	● Hill Samuel	14	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	C. Hoare & Co.	14	Yorkshire Bank	14
● Brown Shipley	14	Hongkong & Shangh	14		
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	24	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bnk	14		
Clydesdale Bank	14	Midland Bank	14		
Comm. Bk. of London Plc	14	Mount Banking	14		
Co-operative Bank	*14	Nat Bk. of Kuwait	15		

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INTERNATIONAL CAPITAL MARKETS

UK GILTS

Investors see brighter times ahead

A SERIES of squalls did little last week to dent confidence in the gilt market that brighter times lie ahead.

Cuts in UK interest rates, boosting gilt prices, appear to most people in the market to be virtually certain by the end of the year – even though the past week saw a number of signals that this sequence of events might not take place as quickly as some had hoped.

The net effect of last week's events were that yields for many short-dated gilts fell back slightly, indicating a rise in prices. Long-duration gilts, which are less affected by speculation about short-term movements in interest rates, were little changed.

The benchmark 10 per cent Treasury 1994 closed on Friday at 96$\frac{9}{32}$, up from 95$\frac{11}{32}$ the previous week. The yield fell to 11.30 per cent from 11.43 per cent.

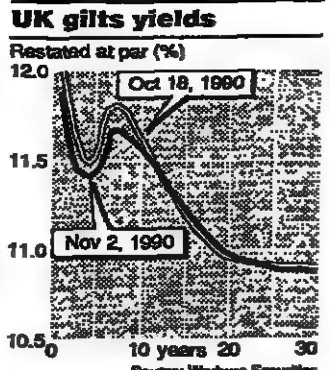
Signs that interest rate cuts are on the way mainly concern the evidence that the UK economy is slipping into a recession. Last Tuesday the Confederation of British Industry issued an unusually gloomy survey which showed that manufacturers are facing their worst difficulties for 10 years.

Later in the week came news that growth in M0, the government indicator for the money supply which mainly comprises notes and coins in circulation and a key indicator of inflationary forces, has fallen sharply in the past few weeks. According to unofficial City estimates, M0 grew at an annual rate of 3.8 per cent in October. That is down on the 4.6 per cent recorded for September and well within the government's target range of between 1 per cent and 5 per cent.

According to the estimates, over the past six months the increase in M0 has been barely perceptible – a state of affairs described by one City economist as dramatic – and a sign of just how far the economy has slumped since the beginning of 1990 when consumer and business demand was relatively healthy.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Data of this kind would be enough – in the absence of outside factors – to push the government into reducing the base rate from 14 per cent. This would follow last month's cut of one percentage point, made at the time of Britain's entry into the European exchange rate mechanism (ERM). But the domestic economy is not the only issue for the government to worry about.

The ERM is a case in point. A sudden loosening in UK borrowing restraints might lead to a flight from sterling, forcing the pound against the effective floor of its ERM band at around DM2.88. Such a sequence of events is all the more likely given the nervous state of the foreign exchange markets, which the departure from the UK government last Thursday of Sir Geoffrey Howe did nothing to calm.

Last week's Treasury statement that interest rates were unlikely to come down prematurely was clearly aimed at giving sterling a psychological boost. The Bundesbank's decision to increase its Lombard lending rate to 8.5 per cent from 8 per cent had much the same effect.

Peter Marsh

US MONEY AND CREDIT

Wall Street yields discount recession

RECESSION is finally here. Last week's round of macroeconomic statistics offered persuasive evidence that the US economy is in the process of sliding into recession.

In the bond market, the issue that is now being looked at by institutional buyers of US Treasury paper is how far and how fast interest rates might drop as the recession deepens during the first half of 1991. The multiple indications of recession are already being built into the yield curve.

The oil price, along with the Gulf crisis, remains an imponderable, but one which has slipped off the minds of traders in Wall Street as the movement in price of oil last week was less than one dollar.

The budget deficit issue, resolved after an unedifying spectacle in Washington, was also removed from consideration last week. Indeed the only mention of budget matters came as the Federal Reserve, as expected, moved to ease rates last Monday.

Salomon Brothers said on Friday that the recession signs, together with renewed weakness in money and bank credit growth, should persuade the Fed to ease monetary policy by another 25 basis points this month. The Fed last week set a 7.75 per cent target for Fed Funds and Mr Donald Straszheim, chief economist at Merrill Lynch, said he expects the rate will be eased to 6.5 per cent by mid-1991.

With budget and oil matters on the back burner the market spent last week reacting to statistics. Last Tuesday's claim by the government that the inflation-adjusted GNP grew by 1.8 per cent in the third quarter was not believed by the market, which expects the number to slip below 1 per cent when the revised figures are released.

On Thursday the first indicators of fourth-quarter economic activity began sketching out the recession: unemployment insurance claims jumped by 75,000 to 454,000 in the week ended October 20.

More important, on the same day the US purchasing managers' index, the key survey of economic conditions, fell to an eight-year low of 43.3 per cent in October, showing an overall contraction in the US economy. A reading of 50 per cent generally indicates a flat manufacturing economy while any figure below 44 per cent means contraction.

On Friday, data showing a decline in construction and manufacturing jobs and a steady 5.7 per cent unemployment rate continued to indicate stagnation in the economy. Then came a 0.8 point drop in the official index of leading indicators for September and a report warning that the burden of consumer debt would lead to sharp cuts in spending.

The market rallied on all this recession news and the flight to quality continued among retail buyers of Treasury paper. The consensus forecast for US growth in 1991 is now just 0.6 per cent and consequently interest rates are expected to slip lower in coming months.

Donaldson, Lufkin & Jenrette, along with other analysts, is forecasting a recession-driven yield curve that would see two-year notes yielding 6.5 per cent and 30-year bonds 7.25 per cent by mid-1991. On Friday, a day after the statistics created a mini-rally, the benchmark 30-year Treasury bond was yielding 8.69 per cent, down from 8.77 per cent a week before.

Rightly or wrongly the market has decided that a core US inflation rate of 4.5 per cent means that only a war with Iraq can alter the equation. Longer-term thinkers are beginning to talk about how the oil price spike may last in the event of war and how the countervailing influence of recession will affect interest rates. The other incalculable is how quickly the US dollar may depreciate in coming months, with Salomon Brothers and others predicting a gradual depreciation.

The bond market's focus this week will be on the new quarterly refunding of $34.25bn of Treasury paper and on this Friday's producer price index, which is expected to show that wholesale price inflation, excluding food and energy, rose by 0.3 per cent in October.

The Treasury auction is huge, but is expected none the less to go reasonably well even without significant Japanese buying for two reasons – institutions such as pension funds have plenty of cash to reinvest and there remains a dearth of Triple A quality debt.

Alan Friedman

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (not weekly av)	7.88	7.88	7.94	9.92	7.78
Three-month Treasury bills	7.30	7.37	7.25	9.11	7.20
Six-month Treasury bills	7.39	7.45	7.42	9.37	7.18
Three-month prime CDs	7.95	8.02	8.10	10.35	7.65
30-day Commercial Paper	7.80	7.95	8.00	9.95	7.80
90-day Commercial Paper	7.75	7.90	[illegible]	10.05	7.70

US BOND PRICES AND YIELDS (%)

	Last Fri	Change on wk	Yield	1 week ago	4 wk ago
Seven-year Treasury	101.64	[illegible]	8.40	8.47	8.51
20-year Treasury	105.41	[illegible]	8.71	8.80	8.81
30-year Treasury	100.38	[illegible]	8.69	8.77	8.79

Money supply: In the week ended October 22, M1 fell by $0.4bn to $818.8bn

FRENCH BONDS

Dealers surprised by cut in rates

THE Bank of France's decision last Wednesday to cut its intervention rates by 25 basis points caught the markets by surprise, with just the sort of unexpected good news that might have augured well for this week's monthly French government bond auction.

On technical grounds, the reduction could have been justified earlier: the franc had been above its central rate against the D-Mark in the EMS exchange rate mechanism for several weeks.

Nevertheless, few dealers expected the central bank to run the risk of lowering its interest rates while the Bundesbank raised its own, especially as Mr Jacques de Larosière, the governor of the Bank of France, had warned only two weeks earlier that international conditions made a cut in intervention rates difficult.

In the event, they were wrong on both counts, for just when the French rate cut appeared to rule out any possibility of an early German move, the Bundesbank announced a 50 basis point rise in its Lombard rate.

French bond market players, however, appear to have accepted that these opposite moves still fall within the logic they have been following in recent weeks.

"The Bundesbank has said and repeated that the move is largely technical; the long end of the market has believed that, and not moved," commented one corporate treasurer.

At the short end, however, Mr Pierre Bérégovoy, the finance minister, is rowing against the tide in his repeated efforts to reduce the cost of credit to businesses. It is now a lender's market, and any reduction in central money market rates is confiscated by the banks in wider margins.

French economists also view the Bundesbank's decision to raise its Lombard rate, although not the discount rate, as part of a domestic budget policy battle with the German government, whose "unrestrained borrowing on the capital markets," according to Mr Hans Tietmeyer, Bundesbank senior director, could force a rise in interest rates.

In any event, a second glance appears to have convinced economists that the combination of French and German interest rate moves, far from showing a lack of cohesion between the two central banks, is in fact a sign of their close co-ordination. The franc fell modestly after the increase in the Lombard rate, but at FFr3.3568 to the D-Mark on Friday it stood only just below its ERM central rate.

Prospects for Thursday's French government bond auction, however, do not appear to have been dramatically boosted by the Bank of France's 25 basis point rate cut. Cash is extremely tight, and few investors are ready to commit themselves at a time when uncertainty over events in the Gulf is higher than ever.

"It is the same problem ever since the invasion: should you dissociate the political factors from the economic fundamentals or not?" comments Mr Bettino Babini of Paribas.

Traders believe the Trésor, which has already raised a net FFr94.22bn in the bond market this year, is in need of money and today could announce a target of up to FFr10bn. Demand could focus more on floating rate issues than on fixed interest, however.

George Graham

NRI TOKYO BOND INDEX

Base average 1987 = 100	25/10/90	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	146.03	7.73	145.63	143.16	142.99
Government Bonds	142.86	7.65	142.53	139.80	140.60
Municipal Bonds	147.95	7.68	147.91	146.54	144.65
Govt.-guaranteed Bonds	150.96	7.77	150.54	147.81	145.14
Bank Debentures	144.48	7.73	144.18	141.72	148.69
Corporate Bonds	148.52	7.93	147.84	147.27	145.93
Yen-denom. Foreign Bonds	150.72	8.75	150.48	154.55	152.48
Government 10-year†	7.28		7.26	7.39	6.93

† Estimate for yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	99$\frac{1}{2}$	+$\frac{1}{4}$	8.99
ABN 9 1/8 94	200	100$\frac{3}{8}$	+$\frac{1}{4}$	8.98
AETNA LIFE & CAS 7 3/4 16	200	[illegible]	[illegible]	8.05
ALBERTA PROVINCE 8 5/8 96	750	[illegible]	[illegible]	[illegible]
ALBERTA PROVINCE 9 3/8 95	600	101$\frac{1}{2}$	[illegible]	8.99
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
AIR CANADA 6 1/4 PERP	300	93	[illegible]	[illegible]
ASIAN DEV BANK 6 10	100	81$\frac{1}{4}$	[illegible]	[illegible]
AUSTRIA 4 5/8 98	100	86$\frac{1}{4}$	[illegible]	7.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C cpn = current coupon. CONVERTIBLE BONDS: US dollars unless indicated. Chg. day = change on day. Cnv. date = first date for conversion into shares. Cnv price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex-yld = exercise yield at current warrant price.

Closing prices on November 2

SYNDICATED LOANS

Bankers warm to electricity financing

THE WARM reception given by banks to the £2.5bn financing for the UK's two electricity generating companies last week has, ironically, underlined the difficulties of pricing a deal in the current state of the syndicated loans market. Banks arranging both loans for National Power and PowerGen completed wide underwriting groups in a week.

In fact, both deals were oversubscribed – PowerGen's by as much as 25 per cent – suggesting that perhaps the generators could have achieved a slightly lower cost of borrowing.

The banks' enthusiasm for the deals follows a recent public row between the two companies over the right pricing for the loans. This ended in PowerGen repricing its facility to the same level as National Power with an interest payment of 37½ basis points over the London Interbank Offered Rate.

There was some suggestion that PowerGen's loans could, in fact, have been achieved at a level somewhere between its initial pricing which offered an interest margin of 25 basis points, and the final level. The uncertainty over the right price highlights the problems of pitching the interest payment on a loan when market prices are rising rapidly.

In a continuation of the focus on electricity deals in the loans market, Manufacturers Hanover made its long-awaited announcement on Friday that it will arrange £800m in project finance for Teesside Power. Along with Manufacturers, The group of arrangers includes Canadian Imperial Bank of Commerce, Crédit Lyonnais, Hill Samuel and Mitsui Taiyo Kobe.

The 17½-year loan will be used for the construction of a 1,725 megawatt combination cycle gas-fired power station which will be located at ICI's Wilton site in Teesside.

The prestige of the project, which will be the UK's largest facility of this type, is expected to draw a lot of bank attention. The loan will probably pay an interest rate of some 90 basis points on the basis of previous deals.

A deal which looks as if it will soon be completed successfully is the £700m loan being syndicated for the UK interests of the French oil company, Elf Aquitaine. The arrangers reported that the deal was over-subscribed late last week which follows a repricing of the loan. Bankers are hoping that the success of these large deals in the market is a sign that prices are levelling out.

Elsewhere in the market, a number of smaller companies approached bankers for financing at fairly hefty margins. Ferry and Port Holdings, one of Sea Containers's remaining units which includes the Hoverspeed operations and the Isle of Wight ferry service, awarded the mandate to Chase Manhattan to arrange a £90m loan paying an interest margin of 125 basis points over Libor.

British Gas has launched a $1.5bn US commercial paper programme which will be handled by three dealers: Goldman Sachs, Merrill Lynch and Lehman Commercial Paper.

Manufacturers Hanover was awarded the mandate to arrange a $60m deal for Nora Industries, a Norwegian food and drink firm and West LB announced a $50m deal for Norwegian Mortgage Bank.

Landhurst Leasing, the asset finance company, announced it has signed a three-year £121m revolving credit facility. The loan is the company's largest syndicated facility for which it pays an interest margin of 75 basis points over Libor. Mr David Ashworth, the company's finance director, said, in spite of market conditions, the cost of funding for the company has not risen and remains at the same level as it paid in April 1989.

Deborah Hargreaves

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,399.3	0.0	368.0	13,069.7
Prev	515.5	0.0	287.5	12,420.9
Other	2,183.8	1.3	2,439.6	4,607.1
Prev	1,548.5	129.7	225.2	8,009.0
Secondary Market				
US$	21,972.3	1,121.8	10,297.1	9,302.8
Prev	14,283.9	1,813.7	3,638.5	7,050.4
Other	26,322.6	1,599.2	9,511.1	42,250.3
Prev	23,949.9	1,263.5	6,245.7	37,632.4

	Cedel	Euroclear	Total
US$	19,051.2	38,479.8	57,531.0
Prev	15,010.4	26,200.0	41,210.4
Other	34,085.7	54,828.5	88,914.2
Prev	28,918.6	50,085.3	79,003.9

Week to November 1, 1990 Source: AIBD

EUROPEAN SECURITISATION

Scandinavians break new ground

THE seeds of securitisation at last appear to be taking root in Europe. Last week, Skandinaviska Enskilda Banken, the Swedish bank, became the first continental European institution to securitise its mortgage loans. Other Scandinavian banks are expected to follow suit.

In securitisation, a bank or corporation takes assets off its balance sheet, repackages them as bonds and sells them to investors.

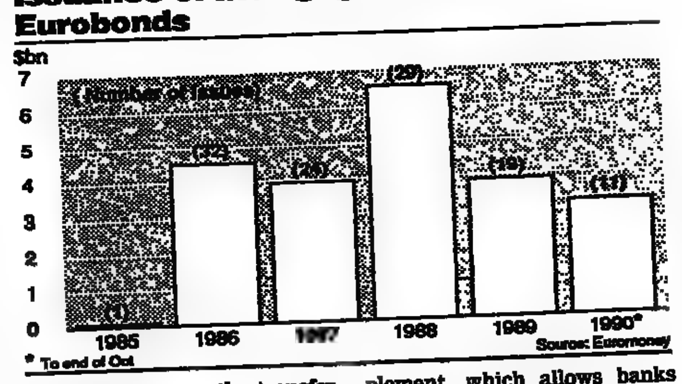
Ground-breaking deals are struggling through a prolonged gestation period in some other European countries.

In addition, the volume of privately placed transactions, generally easier and cheaper to structure, is growing.

But legislative and technical problems remain a powerful deterrent. Securitisation is not a cheap method of funding, and it is often painfully slow. It does not even command a particularly enthusiastic response among European investors, who remain conservative.

"Every continental European market, including the French (where special legislation was introduced two years ago), still offers a great many impediments to securitisation," laments Mr Tim Mortimer, a managing director of Financial Security Assurance, the US-based monoline insurer. He cites problems such as the lack of adequate financing vehicles and local taxes on the transfer of assets.

Issuance of mortgage-backed Eurobonds



* To end of Oct

In Spain, potentially a fertile ground for securitisation, the Bank of Spain does not view the vehicle as the owner of the assets. So the Spanish market may be stymied from the start, even though Spain's high owner-occupier rate makes it a prime candidate for mortgage securitisation.

According to Mr Mortimer, "The speed at which European markets develop now will depend on the regulators."

But banks are under increasingly fierce pressure to build up their capital in relation to their assets in order to meet international guidelines. When capital is difficult and expensive to raise, securitisation can be a viable alternative or complement, which allows banks to take some assets off their balance sheets.

This means that they do not just look at the basic costs of securitisation, which are, according to one issuer, "phenomenally high".

"They need to look at capital-adjusted cost of funds," explains Ms Jeanine Flint of Crédit Suisse First Boston's asset finance group. "A borrower generally has good strategic as well as financial reasons" to use securitisation.

The liberalisation of the Italian banking sector has left a number of banks pressed for capital. Several are said to be working on transactions, backed by mortgages and car loans. A significant proportion of Italian mortgages are denominated in ECUs, so ECU-denominated Italian mortgage-backed deals could be the first to emerge. But there are technical problems to be overcome.

Analysts say securitisation is unlikely to take off in Germany, where banks are well-capitalised and can access fresh capital easily. Despite early legislation, the asset-backed market in France has grown at a disappointingly slow pace.

Smaller European markets, like Belgium and Ireland, are now in the process of passing legislation to facilitate securitisation. In Belgium, consumer loan and credit care receivables are the most likely assets to be securitised.

But outside Europe, a huge potential market is waiting to be unleashed. Japanese banks are not allowed to securitise their assets at all. However, it is widely expected that this market will be opened next year, although veterans point out that teething problems could still delay the gestation of the first deals.

Japanese banks, as the recent deluge of subordinated debt showed, are little short of desperate to shore up capital, eroded by the slump in the value of equity values, and the authorities are said to be under considerable pressure to open the way for securitisation.

Tracy Corrigan

SUBORDINATED DEBT

Concern voiced over Nationwide deal

LIKE many other forms of financing, the cost of raising subordinated debt in the sterling bond market is rising sharply – but few bankers agree on quite how sharply. UK building societies were concerned to see Nationwide Anglia pay 175 basis points above the yield on the comparable UK gilt for its £125m 10-year issue of subordinated Eurobonds on Friday.

"The building societies were upset because it has set a new standard [for the pricing of such deals], but it is not an unreasonable standard," according to one banker.

Other dealers felt Nationwide had paid more than it needed to. "The deal was snapped up by UK institutional investors. It could have been done 20 basis points tighter," according to one dealer.

The yield spread tightened from 170 basis points (at the fixed reoffered level), to 165 basis points, according to lead manager Crédit Suisse First Boston.

In any case, investors will be sure to demand at least an equal spread from any of Nationwide's smaller brethren which come to the subordinated debt market.

This means that they are unlikely to do so. The building societies, unlike banks, are not too pressed for capital.

But Nationwide Anglia took the view that funding costs are set to rise further. Even though the society had no immediate need for the funds, the capital will provide flexibility in the future, allowing the society to expand its assets without facing capital constraints.

"We think that the insurance premium for this policy was worth paying," says Mr Daniel Hodson, deputy chief executive.

The subordinated debt ranks as lower Tier-2 capital under the Basle accord. Building societies conform to capital adequacy standards set by the Building Societies Commission.

Although the guidelines are conservative, building societies face less pressure than banks to shore up their capital bases, partly because of the nature of their assets.

A week before Friday's Nationwide Anglia deal, Barclays Bank, the triple-A rated UK bank, issued £250m of seven-year bonds at a spread of 95 basis points above the gilt.

That deal aroused equal controversy, because some banks felt that they were being inadequately compensated for placing aggressively priced paper.

T.C.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Tonami Transportation(e)‡♦	100	1994	4	4¾	100	Kankaku (Europe)	4.750
Osprey Mortgage Secs.(h)†♦	160	1995	5	(h)	100	CSFB	-
Kobe Elec.Railway♦	70	1994	4	(5¼)	100	Nikko Secs.	-
Mitsubishi Fin.Int.♦	77	1994	4	9¼	101⅝	Mitsubishi Fin.Int.	8.628
RSVP Westminster(i)♦♦	154	(i)	(i)	(i)	100	Goldman Sachs Int.	-
MBNA America Bk(m)♦	600	1993	3	8¾	99.82	Merrill Lynch Int.	8.910
AUSTRALIAN DOLLARS							
State Bk of S'th.Australia♦	75	1995	5	13¼	101⅝	Hambros Bk	12.790
NEW ZEALAND DOLLARS							
Telecom Corp (NZ)♦	50	1992	2	14½	101.95	Fay Richwhite (UK)	13.326
STERLING							
N'wide.Ang.Build.Soc.♦	125	2000	10	13½	101.39	CSFB	13.241
SWISS FRANCS							
Hokuetsu Ind.(a)★★♦	50	1995	-	5½	100	BSI	5.500
Ricoh Elemex Corp.(b)★★♦	45	1995	-	6	100	Wirtschafts & Privatbk	6.000
Nippon Mick(c)★★♦	30	1995	-	8⅛	100	Swiss Volksbank	8.114
Small Bus.Fin.Corp.★★♦	120	1995	-	7¼	100	SBC	7.254
Jaleco(d)★★♦	30	1995	-	6⅛	100	Nomura Bk (Switz)	6.114
Kato Denki(f)★★♦	30	1995	-	6¼	100	Nomura Bk (Switz)	6.219
Fuji Seiko(g)★★♦	35	1995	-	6½	100	HandelsBank Natwest	6.500
Tayca Corp★★♦	35	1995	-	6	100	Credit Suisse	6.000
Yamada Denki Co(l)★★♦	35	1995	-	6⅛	100	Nomura Bk (Switz)	6.114
Horipro Inc.(j)★★♦	50	1995	-	6	100	Nomura Bk (Switz)	6.090

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
Nagasakiya Co.★★♦	100	1995	-	8	99¾	UBS	8.063
ECUs							
IMI Bk♦	150	1993	3	10½	101½	Bankers Tst.Int.	9.898
LUXEMBOURG FRANCS							
Hambros Int.BV★★♦	800	1996	6	9⅞	101.85	Kredietbank	9.457
NIB NV★★♦	500	1996	5½	9⅞	101.85	BGL	9.320
ASLK-CGER★★♦	500	1994	4	10	102	Banque UCL	9.378
Bacob Finance★★♦	400	1994	4	10	102	Banque UCL	9.378
YEN							
Banca CRT♦	11bn	1992	2	8	100.955	Nomura Int.	7.468
Esselunga♦	30bn	1992	2	8	101.075	Nomura Int.	7.402
Mitsui Real Est.(k)★★♦	30bn	1994	4	(k)	101.025	Daiwa Europe	-
British Gas Int.Fin.♦	20bn	1992	2	8	101.025	Daiwa Europe	7.430
NYK Int.(n)†♦	10bn	1993	3	(n)	101	Yamaichi Int.	-

★Private placement. ‡Convertible. ♦With equity warrants. †Floating rate note. ♦Final terms. [illegible]

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

FRANCE (continued)

GERMANY

GERMANY (continued)

ITALY

ITALY (continued)

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA

AUSTRALIA (continued)

HONG KONG

MALAYSIA

SINGAPORE

CANADA

TORONTO
Closing prices November 2

MONTREAL
Closing prices November 2

INDICES

NEW YORK

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA

& Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX ... Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed

TOKYO - Most Active Stocks

Friday 2 November 1990

	Stocks Traded	Closing Prices	Change on day
Asahi Nylon	5.9m	1,260	-20
Kurabo Inds	5.0m	1,220	-120
Kyosan Elec	5.2m	1,310	-50
Aoki Corp	5.0m	942	+32
Kobe Steel	4.9m	522	+5
M'bishi Heavy	4.8m	735	+6
Nippon Steel	4.6m	450	+14
S'tomo Metal	3.8m	493	+5
K'saki Steel	3.7m	[illegible]	-9
Onoda C'ent	3.5m	[illegible]	+25

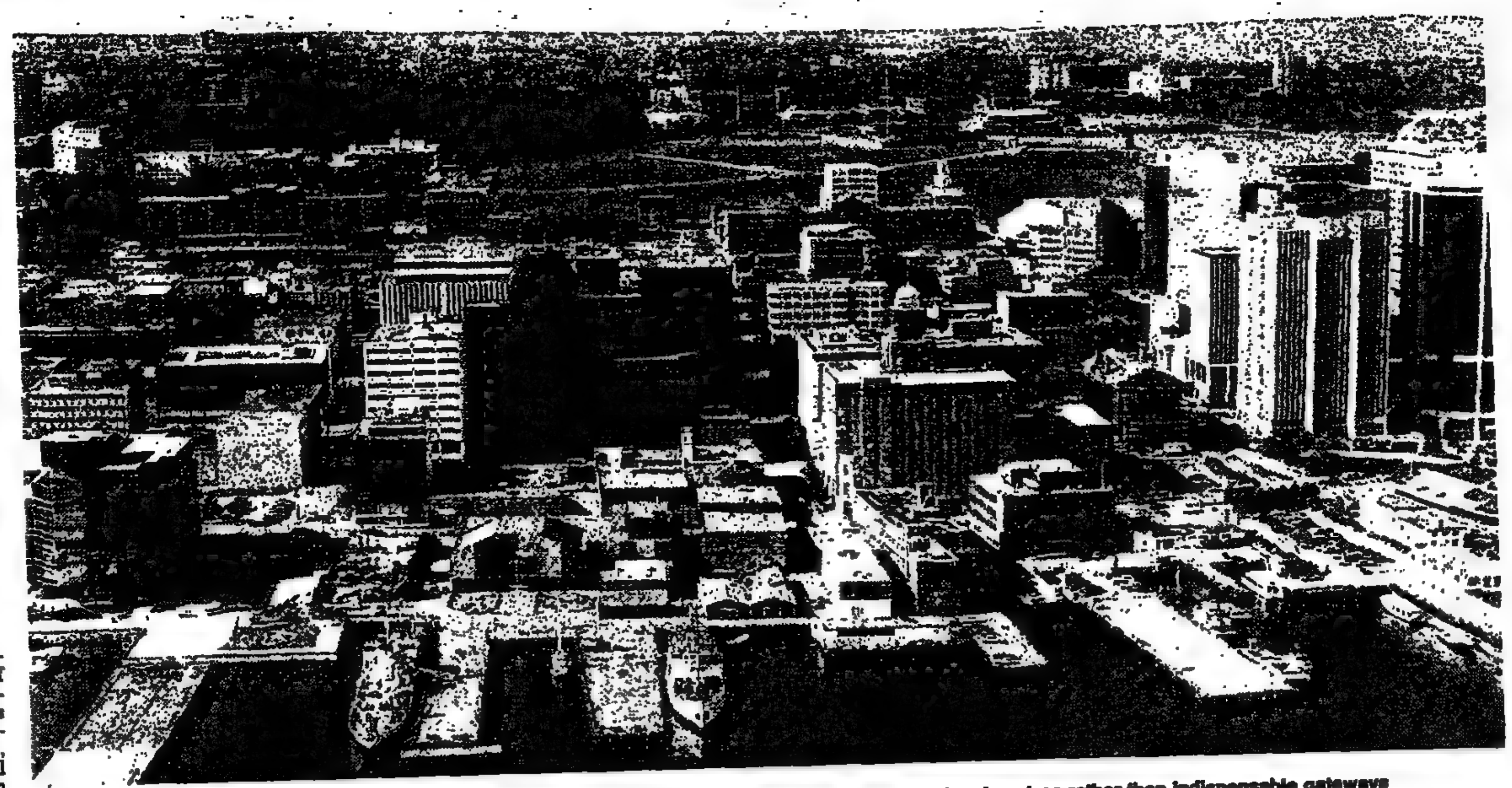
هكذا من الأصل

FINANCIAL TIMES SURVEY

NOVA SCOTIA

Monday November 5 1990

Nova Scotia may be the perfect antidote to the rat races of North American cities, but can it reconcile charm with the demands of the global economy? As **Bernard Simon** reports, a younger breed of business and government leaders are shifting their gaze to the future



Centres of industry, commerce and finance have shifted westwards, leaving cities like Halifax as regional centres rather than indispensable gateways

Challenge to conservatism

THE CANADIAN province of Nova Scotia is, by common consent, one of the most delightful corners of North America. Blessed by geography and history with an engaging tranquillity, "this rather funny old place", as one long-time resident calls it, is the perfect antidote to the rat-race of New York, Los Angeles or Toronto.

The challenge for Nova Scotia is to reconcile its charm with the demands of the global rat-race, where those able and willing to use their elbows tend to reap the rewards of trade, investment and growth.

Unfortunately for Nova Scotia, the north-west Atlantic seaboard is not as important to Canada or North America as it once was. The centres of industry, commerce and finance have shifted westwards, leaving cities like Halifax as regional centres rather than indispensable gateways.

The Bank of Nova Scotia moved its main offices to Toronto years ago; the province's steel and coal producers are shadows of their former selves. A Toyota plant on Cape Breton Island, set up in the 1960s as the first Japanese assembly line in North America, lasted only a few years.

Nova Scotia's physical isolation – it consists essentially of a peninsula and an island facing into the Atlantic – has encouraged its 900,000 residents to bask in their rich past, which dates back to the arrival of the French in the early 17th century. The Union Jack still flutters above Province House, the provincial legislature in Halifax. In many parts of the province, Gaelic is as much a second language as French.

The pace of life is a relaxing change from California, Florida or southern Ontario. With their roots in picturesque villages that go back many generations and their mortgages paid off long ago, Nova Scotians have been far less eager than most North Americans to head for the bright city lights.

A sizeable chunk of Nova Scotia's private capital remains in the hands of tightly-knit families. While investing much of their wealth outside the province, these families have generally also been reluctant to share their local businesses with outside partners. Nova Scotians who favour a more outward-looking approach complain especially about the legacy of excessive public-sector generosity which, over the years, has sheltered business and workers from outside competition.

Governments have come to the rescue of several of the province's biggest industries, including fisheries and the steel and coal producers on Cape Breton Island. Workers are protected by a generous unemployment insurance scheme which requires them to put in as little as 10 weeks per year on a job to collect benefits.

But, as in other parts of Canada, chilly winds are blowing into Nova Scotia. Rising nationalism in Quebec has concentrated minds on a future where the four provinces of Atlantic Canada (New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island) could find themselves virtually severed from the powerhouses of Toronto and Montreal.

Similarly, the US-Canada free trade agreement is alerting companies in Atlantic Canada to both the opportunities and the threats across the border.

An especially rude shock has been the discovery that the federal and provincial governments, saddled with uncomfortable budget deficits, are tightening their purse strings. The flow of public-sector largesse has become less reliable than it used to be, whether in the form of Ottawa telling the Cape Breton Development Corporation that subsidies for its coal mines will be cut off in four years, or the provincial government refusing to back the rescue of a fish company in the town of Lockport.

This public spending squeeze comes at a time when business conditions are becoming more difficult as a result of high interest rates, the strong Canadian dollar (which hurts exports) and cutbacks in the fishing industry.

Given these uncomfortable realities, the question is increasingly being raised in business and government circles throughout Atlantic Canada whether one close-knit regional economy would not be stronger than the sum of four small provincial ones.

The issue came into the open earlier this year with a call by New Brunswick premier, Mr Frank McKenna, for an economic union between the three most similar provinces, namely New Brunswick, Nova Scotia and Prince Edward Island (Newfoundland, which is poorer and more remote, is often viewed as a special case).

Even without a formal agreement, links between the four provinces are growing. Regional air services have expanded greatly in recent years. Nova Scotia business is pressing for easier road access to the other maritime provinces and to nearby Maine by asking for the Trans-Canada Highway to be widened to four lanes through New Brunswick.

Government departments are also sharing information with one another on a scale not seen before. A new federal government agency was set up in 1988 to co-ordinate industrial development throughout the region.

Nova Scotia took a big step away from the past in September with the surprise appointment of its long-time political leader, Progressive Conservative premier Mr John Buchanan, to the federal Senate in Ottawa.

Mr Buchanan, whose 12-year tenure was far longer than any of Canada's other nine provincial premiers, was the type of politician seldom encountered these days – "the last of the old-time pols", in the words of one observer.

With a home in a lower-income neighbourhood of Halifax and not averse to bursting into song, he projected the image of a folksy grandfather. But Mr Buchanan was a shrewd politician and a master of patronage who ensured that friends and supporters were well rewarded. He was also intensely parochial, fighting much harder for Nova Scotia's own interests than for those of the region as a whole.

Mr Buchanan and several other cabinet ministers are under investigation by the Mounties on allegations by a former senior civil servant that they used government property for their personal use, and steered public works contracts to their friends and political cronies. One of the contracts in question was for C$50,000 worth of mechanical toilet-seat cover dispensers, which were never used.

Although Mr Buchanan's Progressive Conservative government was re-elected with a clear majority only two years ago, there is some optimism among a younger generation of business and government leaders that with the end of the Buchanan era – a new premier will be chosen next February – Nova Scotia will find it easier to shift its gaze from the past to the future.

The economy is being squeezed from several directions, writes **Bernard Simon**

Interest and exchange rates bite

NOVA SCOTIA's economy is being squeezed from several directions. Some of the pressures, such as high interest rates and the strong Canadian dollar, will probably be relatively short-lived. But others, especially the clampdown on transfers from Ottawa and the fishing industry's problems, are likely to require profound structural adjustments.

Like other parts of Canada, Nova Scotia is currently in the the throes of a business slowdown, if not a full-blown recession.

The Royal Bank of Canada forecasts that, after averaging 4.9 per cent in the eight years to 1989, the province's real gross domestic product will move up by 0.7 per cent this year and by only 0.3 per cent in 1991, with a modest recovery starting in 1992.

Unemployment, which fell briefly into single digits last year, could climb above 11 per cent again as the recession takes hold. Lower tax revenues will push the government's operating budget deficit in the current fiscal year ending March 31 1991 well above the C$27.4m projected in last April's budget, and could delay the aim of balancing the budget by 1991-92.

The strong dollar has hurt several of the province's biggest industries, which depend heavily on exports to the US. It is also blamed, in part, a fall in tourism last summer. One of the big forestry companies loses C$2m a year for each one US cent rise in the currency. National Sea Products, the main fish processor, is also a large exporter.

The province may fare better than some other parts of Canada

Consumer spending is in the doldrums. Fishermen, renowned as big spenders when times are good, have been forced to cut back sharply on their household budgets.

There are some silver linings, however. With local companies being relatively risk-averse, Nova Scotia may have the consolation over the next year or two of faring better than some other Canadian provinces. Both the peaks and troughs in Nova Scotia's business cycle have tended to be shallower than the boom-to-bust fortunes of some other parts of Canada.

The fisheries slump is largely confined to the remote fishing communities. "A problem in the fishery doesn't mean that the whole economy collapses", says Mr Tim O'Neill, president of the Atlantic Provinces Economic Council.

The energy sector is among those likely to buck the short-term trend. Work recently began on developing two small offshore oilfields, and Nova Scotian business expects to gain some spin-off benefits from development of the much bigger Hibernia field off the Newfoundland coast.

Two coal-fired power stations are under construction at a combined cost of almost C$600m. Work has also begun on several new coal mines.

The government's ability to pump up the economy with public spending is severely limited by the squeeze on its own finances. "It's very tough", says Mr Greg Kerr, the province's forceful finance minister, who has watched transfers from the federal government tumble from 49 per cent of the province's budgetary revenues in 1981-82 to an estimated 39 per cent in the current fiscal year. Total transfers are expected to edge up by only 0.8 per cent this year as Ottawa tries to reduce its own deficit by slowing the growth of payments to the provinces.

The consequences of the fiscal crunch were illustrated last month by a towering 25 per cent hike in student fees at Dalhousie University in Halifax.

The fuss that accompanied the fee increase was a reminder of the challenge that faces the government in trying to trim its spending. "The insatiable appetite of Canadians for protection makes it extremely difficult to get into meaningful discussions of where we can get efficiencies", Mr Kerr says.

But with more than half the province's current outlays earmarked for health and education, and another 11 per cent for social services, any serious belt-tightening has to include these politically explosive areas.

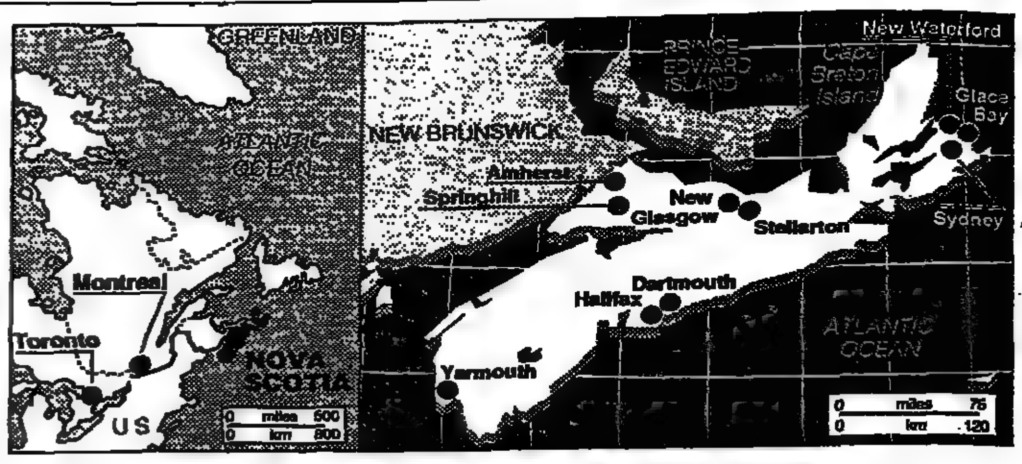
The government is gingerly making a start by encouraging greater rationalisation of facilities and courses offered by the province's eight universities, and by some potentially far-reaching changes in public health administration.

An advisory health council, linking local groups, is to be formed to set spending priorities. Budgeting on a regional basis, rather than by individual institution, may also concentrate minds on ways of sharing rather than duplicating resources, although Mr Kerr acknowledges that "there'll be some noses out of joint".

The squeeze on provincial budgets in Nova Scotia and the other three Atlantic provinces is likely to accelerate the trend towards regional co-operation. Already, some government departments in the four provinces have started to pool resources and share information. Preparatory work is quietly underway to identify further opportunities for cost-cutting co-operation.

One Halifax political observer suggests that pressure will gradually mount for a more fundamental integration of government services, including a regional power corporation and an Atlantic-wide healthcare system.

On the other hand, Dr Jim McNevin, dean of Dalhousie's faculty of management and a former senior civil servant, says past experience has shown that the fervour fades once the overall economic climate improves. "Over every bridge there's another parochialism", says Dr McNevin, who predicts that the pace of regional co-operation will depend on the outcome of the debate on Quebec's future links to Canada.

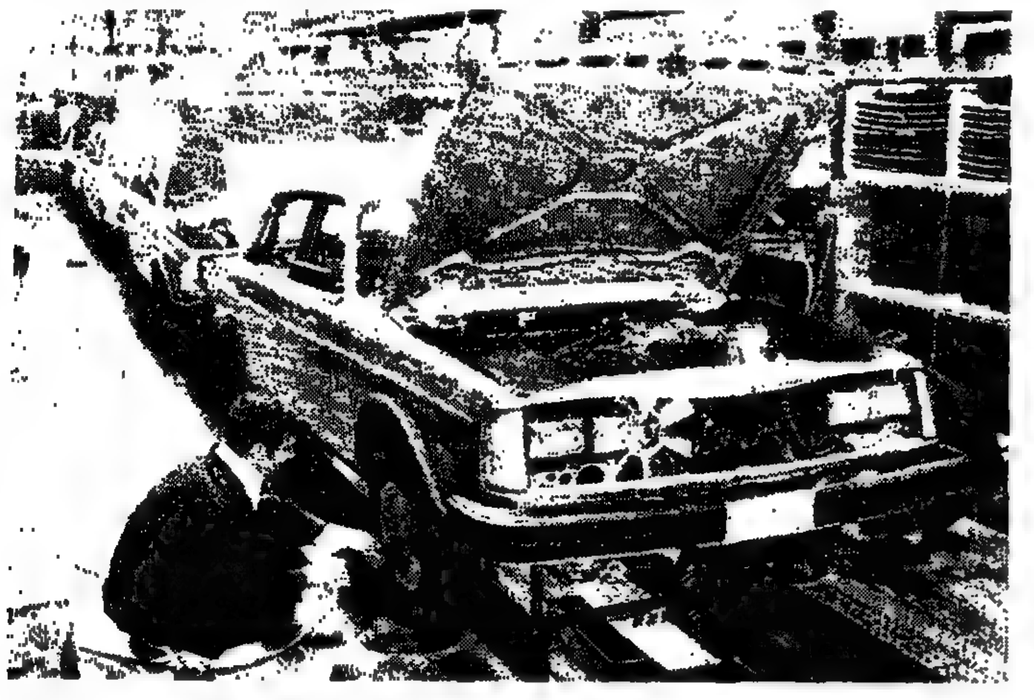


ECONOMIC INDICATORS (1989)

Population	886,800
Labour force	414,000
Unemployment rate	9.9
Consumer price index (1981 = 100)	148.1
Average family income[1]	C$36,592
Minimum hourly wage	C$4.50
GDP at market prices[1]	C$15.706bn
Retail trade	C$6.57bn
Net power consumption (MW/h)	9,167,752
Farm cash receipts	C$315.5m
Total capital & repair[2]	C$4.705bn
Total construction value[2]	C$2.532bn
Housing starts	5,359
Value of manufacturing shipments	C$4.594bn
Total value exports[1]	C$2.162bn
Mineral production value[2]	C$463m
Value of fish landings[2]	C$406m
Total forest production (m^3)[1]	5,383,000
Tourist expenditure[2]	C$795m

[1]1988 figure [2]estimated [3]preliminary

Source: Nova Scotia Department of Industry, Trade and Technology



Swedish car maker Volvo is one of Nova Scotia's largest employers

FOREIGN INVESTMENT

Incentives abound

A PLEASANT lifestyle, an unusually stable workforce, modest land prices and, not least, generous government handouts have made foreign investment an anchor of Nova Scotia's economy.

With the notable exception of the fishery, foreign-controlled companies have a big stake in manufacturing and most resource sectors. There is also a steady trickle of newcomers.

The French tyre-maker Michelin (which has three factories in the province) and Swedish car-maker Volvo are among Nova Scotia's biggest industrial employers. Pratt & Whitney, the US aircraft engine maker, produces components at a plant near Halifax airport.

Among the newcomers is Louisiana-Pacific, the US forest products group, which is opening a C$60m gypsum fibreboard plant at Port Hawkesbury. The diversified British defence equipment supplier Bridport-Gundry is about to build a netting factory in Dartmouth.

Three foreign companies – Stora of Sweden, Britain's Bowater and Scott Paper of the US – dominate the pulp and paper industry. Toronto-based Rio Algom, a subsidiary of Britain's RTZ group, owns the East Kemptville tin mine, the only primary tin producer in North America. Another British company, Lasmo, is a partner in the development of Atlantic Canada's first offshore oilfield, south-east of Halifax.

In addition, a quickening stream of foreign entrepreneurs are setting up business under the federal government's business immigrant programme.

The province's department of industry, trade and technology estimates that it has interviewed about 400 prospective business immigrants in 1990, and that about 100 will actually set up businesses next year, mostly retail outlets, small factories, tourist facilities and restaurants.

Investors in Nova Scotia insist that the province is not as remote as many outsiders may think. "A *lot of* people think it's the end of the world, but it's not", says Mr Maurice Guitton, general manager of Cellpack Aerospace, a Swiss-owned maker of advanced-material defence components which started operations last year in Lunenburg, just over an hour's drive south of Halifax.

Air links with other parts of Canada and the US have expanded greatly in the past few years. Two regional airlines, Air Nova and Air Atlantic, have frequent services from Halifax to other centres in the four Atlantic provinces as well as to Montreal, Toronto and Boston. A service to New York is about to be launched. Air Canada has several non-stop flights a week from Halifax to London.

On the other hand, Mr Guitton does complain that he has to spend much of his time travelling to customers and suppliers.

Like other foreign investors, Mr Guitton has special praise for his skilled and reliable workforce. "We pay them for only 40 hours, but many of them work 50 or 60", he says.

Recruiting young graduates is generally easier, however, than finding experienced managers, most of whom need to be lured from other parts of Canada and the US. But the sharp downturn in the Ontario and Quebec economies appears to have spurred interest recently in jobs in Nova Scotia. The lower cost of living on the east coast is an added advantage. As one manager puts it, "you can sell a house in Toronto, buy one here and still have quite a bit of money left over."

Most foreign investors – including Michelin, Volvo and Cellpack – have benefited from an array of financial incentives offered by the federal and provincial governments. *For instance, the two* governments have provided C$56m to Michelin in recent years for a C$400m expansion program adding 1,850 jobs to its payroll.

Most federal aid is channelled through the Atlantic Canada Opportunities Agency (Acoa), set up in 1988 to cover all four Atlantic provinces. Acoa funded 1,626 projects on mainland Nova Scotia and 483 on Cape Breton Island between its inception and March 1990. The value of the grants and repayable contributions totalled C$221.2m.

Acoa's generosity has lately been limited by a general clampdown on government spending. Contributions over C$100,000, with the exception of interest rate subsidies and grants for non-commercial operations, are now repayable. But the interest rate subsidies can reduce the cost of term loans by as much as six percentage points for up to seven years.

However, both Acoa and the provincial government are trying to shift their emphasis from funding to providing useful support services to business.

Bernard Simon

PROFILE: Michelin

Entry point to the market

WHEN François Michelin decided to invade the world's biggest tyre market more than 20 years ago, his first move was to send out scouts from Clermont-Ferrand to find a place to start manufacturing.

The Michelin Group already had a small marketing operation in Canada, with a distribution centre in Montreal, headed by a trusted French Resistance friend of M. Michelin. Quebec, with its cultural affinities, seemed a logical spot.

But Michelin went ahead with a Canadian beachhead into the North American tyre market with military precision. It consulted the federal government and several provinces, carefully weighing incentive offers, the labour climate, training schemes and transportation economics. It also had jobs and economic spin-offs to offer.

The Granton plant has 2,000 workers and makes tyres for trucks and cars

Quebec, which put out the welcome mat with financial grants, was finally outbid by Nova Scotia. The federal-provincial aid package added up to a low interest loan for about half Michelin's initial US$100m investment.

Michelin also liked the proximity to all-year ports, the Nova Scotia work ethic and special aid available for locating in areas where manufacturing jobs were sorely needed.

By 1974, Michelin Tires (Canada) was producing radial tyres at two plants in Nova Scotia, with most of the output moving to the US.

Now it has a three plant manufacturing base at Granton, Bridgewater, and Waterville. Though all three are separated by 100 miles or more, they are interdependent to ensure economies of scale.

They make radial tyres for cars, trucks and heavy earth movers, with annual sales of around US$700m. They are tied directly into Michelin's North American operations HQ in Greenville, North Carolina.

In the US, Michelin has six plants in the Carolinas and Alabama making the full range of tyres.

Michelin recently became the world's leading tyre maker with acquisition of Uniroyal-Goodrich for around US$1.5bn. Before this it was number two, as the Japanese invaded the world's tyre industry.

Michelin had 1989 world wide sales of US$8.6bn and profits of around US$400m. With Uniroyal-Goodrich, annual sales will reach US$10.5bn and worldwide payroll more than 125,000.

Michelin has always kept a tight lid on its tyre manufacturing technology and commercial strategy.

It hardly shouts its name from Nova Scotia rooftops. But with an investment estimated at US$1bn, it is the province's second most important manufacturer.

The 1m sq ft Granton plant has 2,000 employees and makes trucks and car tyres; Bridgewater has 850,000 sq ft and 1,300 employees making car and van tyres; and the 1,250,000 sq ft Waterville plant, opened in 1982, has 700 employees making off-highway truck tyres.

Michelin (Canada) has a small financial division in Halifax and its domestic distribution system is now being revamped and modernised.

The Nova Scotia plants are meshed in tightly with Michelin's North American operations and vice-president and general manager, Mr Jean Grepin, who reports directly to Greenville (as does the Canadian sales and marketing division). Greenville is the link with France.

When M François Michelin,

Michelin is Nova Scotia's second most important manufacturer

then the group's international president, accepted an honorary degree from St Mary's University in Halifax in 1974, he drew parallels between the workers of Nova Scotia and the hardy souls of France's Auvergne region where Clermont-Ferrand and Michelin originated.

"Learn how to work well rather than simply piling up facts", he told the students.

But when Michelin was building its first two Nova Scotia plants, it had severe problems with the construction unions and complained of delays and cost overruns.

The climate was bitter for some time, and then the Americans threatened to impose countervailing duties on Michelin tyres moving to the US because of Canadian "subsidisation" of the Nova Scotia manufacturing plants.

Unions have tried nine times to organise Michelin's three plants, but without success.

Under provincial law, a union must win majority support from all three plants together, because they are classified as interdependent.

The Canadian Autoworkers tried in 1986 and again in 1988, but failed to win the required 50.1 per cent support. Michelin says it pays competitive rates and fringe benefits and employees participate in many consultative bodies.

Michelin employs 12,000 in its US plants, which also are not unionised. The Uniroyal-Goodrich plants are organised but Michelin says they will remain "autonomous".

"We're satisfied with our performance in Nova Scotia and with improving technology and a strong workforce, we fully expect to remain competitive in the tough markets ahead", says spokesman, Mr Brian Duplessis.

Robert Gibbens

Robert Gibbens on prospects for expansion

Fishermen angle for action on quotas

THE GREAT fishing grounds of the north-west Atlantic sweep down from Labrador along the coasts of Newfoundland and Nova Scotia to Cape Cod, a series of submarine plateaux near the Continental Shelf.

The mightiest is Newfoundland's Grand Bank covering 37,000 sq miles, while Georges Bank covers 8,500 sq miles and Nova Scotia's Banquereau 3,000 sq miles.

This is where the drama of Canada's Atlantic fisheries is being played out amid periodic fears of a declining resource, overcapacity, shrinking quotas, and shuttered processing plants.

In 1977, in response to overfishing by huge foreign freezer-trawlers, Canada declared a 200 mile limit. Foreign vessels generally could only take fish inside that limit that Canadians did not want.

But the Canadian industry soon over-expanded. In the early 1980s it needed a government bail-out, leaving only two major companies, Nova Scotia's National Sea Products and Newfoundland-based Fishery Products International, surviving.

The market peaked in 1986-87, followed by more rationalisation, another resource scare and severe cuts in groundfish quotas.

Nova Scotia's fortunes have stabilised this year with a recovery in some prices and a successful lobster harvest.

Although some parts of the industry are still in trouble, long-term confidence in the province's diversified fishery is starting to pick up again.

While cod is king in Newfoundland, Nova Scotia's fisheries are much more diversified.

In value, lobster and scallops outweigh groundfish, though some of the province's trawlers go as far as the Grand Bank for cod.

The industry employs about 25,000 people directly

The crisis in processing has caught the big Canso plant on the north-east tip of mainland Nova Scotia and another at Lockeport to the south in uncertainty.

But the province has many smaller fish plants owned by entrepreneurs which turn out a wide variety of products.

These are not about to go under, though some may have to operate for shorter periods.

The Nova Scotia harvest, plus value added in processing, is worth around C$1 billion a year.

The industry employs about 25,000 people directly, fishermen and plant workers, but remains highly seasonal. Most take unemployment benefits in winter.

Although it represents a modest 6 per cent to 7 per cent of total provincial output, fishing is the main economic support for more than 200 coastal communities, from Cape Breton in the North to the Halifax and Yarmouth areas and the Bay of Fundy coast further south.

The fisheries provide Nova Scotia's largest single export commodity and support an extensive infrastructure.

The industry is learning how to exploit specialised high-value markets in Europe and Japan and find outlets for "unwanted" species such as silver hake and dogfish, which are unsuited to North American palates.

Nova Scotia also plans a long-term expansion of aquaculture, says Mr Sandy Maclean, deputy minister of fisheries and a veteran of the Federal Department of Fisheries.

Though he agrees that the industry still has too much capacity and must apply greater discipline, he is optimistic about long-term prospects for the resource and for Nova Scotia's strength in shellfish to balance the swings in groundfish.

"The industry is adapting to new markets, to new technology and better resource management", says Mr Maclean.

"Fishing should be entrepreneurial, where good incomes are earned in return for the risks.

"But we also need new mechanisms for the distribution of quotas, fewer non-tariff barriers abroad and a more stable currency and investment climate", he adds.

Nova Scotia works closely with the federal government, which has management responsibility for all the country's salt water fisheries.

Net gain: the scallop fleet at Digby — shellfish outweigh groundfish in terms of value

The province wants to update the infrastructure and encourage the technology and the new markets of the 1990s.

The industry still wields enormous political sway. The inshore lobby is often at odds with the big companies and the offshore interests; the entrepreneurs are impatient with the heavy hand of Ottawa's resource management.

But all agree on broad objectives: an internationally competitive self-supporting fishing industry, diversity of ownership and stable inshore, offshore and processing activities.

The leading processors, such as National Sea Products, which also operate big trawler fleets and handle most of the exporting, say both levels of government must move faster to balance capacity with supply.

Except for perch, says Mr Kelly Nelson, National Sea's executive vice-president, finance and administration, prices for most products are strong.

The big companies expect to break even this year and show modest profits in 1991.

Nevertheless, urgent problems remain, including plant closures and their social impact, severe reductions in quotas for profitable cod, haddock and several other species, enforcement of quotas inshore and the Canada-US exchange rate.

"We can't plan ahead properly with yearly quota changes, and there is a strong case for three-year quotas. Also we don't really know enough about the stocks and there is still a big gap in scientific research to be filled", says Mr Nelson.

Bureaucrats and politicians know what must be done, he says, as do the big companies and the independent fishermen and small processing plant operators across the province.

"Too many people depend on the fisheries. We urgently need a better balance if we want viable industry for the 1990s."

Energy costs must be controlled if manufacturing is to expand

Geared up for offshore oil

NOVA SCOTIA is blessed with as much energy potential as Alberta, if the bountiful Bay of Fundy tidal power resource is counted with coal, oil and gas.

Large-scale tidal power will not arrive until well into the 21st century because of technological, environmental and marketing challenges and the capital needed.

So the province is busy getting Canada's first fully commercial offshore oil production under way by mid-1992 and is meeting electricity demand that will double in 20 years by "clean" coal generation.

Nova Scotia wants to cut reliance on oil for power generation to almost zero, encourage power conservation and promote energy efficiency, synfuels, alternate fuels and better environmental standards.

Energy prices are about average for Atlantic Canada, but must be controlled carefully if manufacturing is to expand.

Lasmo Nova Scotia, a subsidiary of Lasmo PLC of Britain, as operator has moved into top gear to develop a flow of 30,000 barrels of oil daily from the twin Cohasset-Panuke pools in 130 ft of water near Sable Island, 175 miles east-south-east of Halifax.

Its 50 per cent partner is the provincially-owned Nova Scotia Resources (Ventures). The province also will benefit from a tax and royalty agreement.

This is small compared with Newfoundland's C$5bn Hibernia offshore oil project, but will produce an ultralight high-value oil to be sold mainly for blending purposes.

Cohasset-Panuke is already encouraging more exploration and development on the Nova Scotia Shelf. Several majors are ready to resume drilling in the near future.

The search for offshore oil and gas on the Nova Scotia Shelf began 30 years ago with air magnetic surveys by Mobil Oil Canada, and about 130 wells have been drilled.

Results were modest at first, but in 1979 the Venture gas-field was found. Exploration picked up, only to fall away with the sudden drop in oil prices late in 1985 and a fast developing gas surplus in North America. But there remain many known structures to be drilled when markets improve.

The go-ahead for Cohasset-Panuke came before the Gulf crisis drove oil prices up this summer. It will use a converted jack-up drilling rig as a production platform and operate for seven months of the year. The oil will move to shore in shuttle tankers.

Initial capital costs will be about C$160m and, including operating expenditures over its expected six-year life, total cost is estimated at C$565m. At US$30 a barrel oil, annual cash flow would be around C$120m.

The equipment could be moved relatively easily if other pools nearby can be developed later. But the province is also eager to bring in some of its gas reserves, estimated at around 6 trillion cubic feet.

Lasmo will drill two further exploratory wells early in 1991. The rig will then be moved back to drill development wells for Cohasset-Panuke and will finally be converted to a production rig. The production, processing and transportation technology has been applied in offshore locations worldwide, says Lasmo NS executive vice-president, Mr Norman Miller.

Nova Scotia decided against nuclear power 12 years ago, and its conventional hydro sites have been developed. Coal must be a cornerstone well into the next century.

A new low-sulphur coal mine costing C$140m is being built by Curragh Resources with federal-provincial aid to supply steam for Nova Scotia Power Commission turbine-generators for 15 years. Output is due to reach 1m tonnes yearly in 1992.

Nova Scotia now produces about 3.5m tonnes yearly from seven mines, mainly in Cape Breton. Two-thirds is sold to the Power Commission and the rest to other provinces and export markets. Exploration is active in the Northwest, once a prolific producing area.

The Power Commission wants to halve sulphur dioxide emissions and reduce nitrous oxide by 15 per cent over 20 years. It plans a C$436m, 165MW plant at Point Aconi on Cape Breton for 1993 start-up and expansion to 450MW.

The plant's sulphur emissions would be cut by 90 per cent and nitrous oxides by 75 per cent compared with a pulverised-coal plant, it says, allowing other power stations to upgrade their coal.

The commission would also like to see a priavtely-built coal-fired export power station, but this seems some way off.

Nova Scotia has used a unique Swiss-designed Straflo tidal demonstration plant on the Annapolis River, using an integrated turbine-generator, to try to prove the technical feasibility of developing the famous Bay of Fundy tides, which rise up to 55 ft. The project cost nearly C$100m.

After initial teething troubles, it began operating fully in 1985 and supplying the provincial power grid. It has shown a 98 per cent availability and problems with seals, erosion and the local fishery have been overcome.

Although the Straflo has indicated tidal power could be feasible technically, costs remain the roadblock. Two sites at the head of the Bay of Fundy have been surveyed. About 5,300MW available in the Minas Basin would now cost between C$20bn and C$25bn to develop, and 1,400MW in the Cumberland Basin C$5bn to C$7bn.

Robert Gibbens

OFFSHORE STATISTICAL SUMMARY, 1983-88

	1983	1984	1985	1986	1987	1988[1]
Exploration agreements concluded	6	3	10	2	0	0
Miles of seismic shot	22,960	13,414	6,835	429	121	n/a
Wells spudded	10	14	10	6	3	1
Wells completed	10	13	14	8	3	n/a
Total footage drilled	178,038	233,090	154,409	97,586	31,436	n/a
Rigs Active[2]	6	7	5	3	1	1
Total operator spending ($m)	612.9	617.9	481.2	177.7	35.5	n/a
Seismic	48.5	23.2	29.2	0.9	0.2	n/a
Drilling	564.4	594.7	452.0	176.8	35.3	n/a

[1]to mid-June [2]Average number of rigs working during the year
Source: Nova Scotia Department of Industry, Trade & Technology

CAPE BRETON ISLAND

Ambitions tempered

PRIZED BY many Canadians as a favourite holiday spot or the birthplace of a loyal friend, Cape Breton Island is also the victim of what surely ranks as one of the world's most costly and misguided attempts at industrial diversification.

Official policies are belatedly forcing Cape Breton, which makes up the northern part of Nova Scotia, to come to grips with its limitations. But weaning the notoriously stubborn islanders, most of them of Gaelic descent, from the government crutch which has supported their economy for years is likely to be a long and painful process.

The pain is already being keenly felt. Employment in the coal and steel industries, mainstays of the island's economy for almost a century, has plummeted from a peak of 12,000 jobs in the coal mines and 4,500 in steel, to just 2,950 and 800 respectively.

Mr Dan White, a prominent businessman in Sydney, Cape Breton's commercial centre, observes that "there's a feeling that very little of consequence can happen here without the government being involved. It's probably going to take a decade to make a significant adjustment in attitude".

The problem dates back more than two centuries to the discovery of huge deposits of low-ash coal in the Sydney area. With the added attraction of a sheltered, year-round harbour, the coal reserves spawned one of the British empire's leading steel producers at the beginning of this century.

Owned for many years by Dominion Steel and Coal of Britain, the two industries were taken over by the Canadian government in 1967 and split into two companies, Sydney Steel Corporation (Sysco) and Cape Breton Development Corporation (Devco).

Sysco and Devco limped from one bailout to another in the 1970s and 80s. Recognising their declining competitiveness, the federal and provincial governments at the same time poured money into other schemes to broaden the economic base. These ranged from Toyota's first North American assembly line and a heavy water plant (both commercial failures), to an incredible tax credit scheme that allowed companies setting up on Cape Breton to retrieve all their taxes for up to three years in the past and seven years in the future.

Cape Bretoners' long dealings with government had made them expert lobbyists.

A more hard-headed approach is the order of the day

Church leaders were often called in to plead for help for their impoverished parishioners. An especially powerful force was Mr Allan MacEachan, a native son who gained a reputation as one of Canada's wiliest politicians while serving as deputy prime minister under Mr Pierre Trudeau.

A more hard-headed approach has become the order of the day in the past two or three years.

The provincial government has given Sysco perhaps its last fresh start by taking over its entire C$785m debt load and helping to finance a C$275m modernisation. A new universal mill and electric arc steelmaking process are currently coming on stream, and the company expects to turn a profit in the year to March 1992.

Its output, totalling 250-300,000t a year, now consists almost entirely of steel rails, more than half of which is exported. Mr John Strasser, Sysco president, says the modernisation "will enable us to compete in cost and quality with anyone in the world."

If it proves successful, Sysco can expand into structural products with a relatively modest capital outlays of C$20m.

Devco has been told by Ottawa that its subsidies, totalling up to C$32m a year, will end in 1994. It may be forced to close one of its three mines (there were 11 in the 1950s).

The coal company, which also relies heavily on export markets, achieved a major breakthrough by negotiating a 39-month contract with its workers, much longer than the traditional two-year settlement.

It hopes to break even this year, and plans to use the subsidies (as long as they last) mainly for badly-needed capital projects.

Cape Breton has tempered its diversification ambitions. With a sizeable number of the 20 or so industries which took advantage of the tax credit scheme either having disappeared or in difficulty, the search is now on for businesses willing to set up without a pile of money being thrown at them.

Mr Pat Bates, vice-president of Enterprise Cape Breton Corp, a federal agency, expects that the newcomers will probably be skills-based small and medium-sized businesses, such as those with a bias towards training and technology.

The problem is that a sizeable part of the population still stoutly resists change. Devco workers staged an illegal five-week strike in September over a company proposal to hire a private trucking contractor. One islander recounts that a supermarket worker recently greeted his wife with the remark: "Great Cape Breton weather today, eh! – good for making picket signs."

Bernard Simon

HIGH TECHNOLOGY INDUSTRY

Small, but expanding

BEYOND processing fish, wood and other natural resources, Nova Scotia's best chance of diversification may lie in expanding an increasingly active technology sector.

Although it has fewer than 900,000 inhabitants, the province is home to eight universities. About half their graduates leave the province in search of jobs, but many more would probably stay if work was available locally.

The low bulk and high value of most technology products means that transport costs from Nova Scotia to the major markets of North America are not a serious competitive disadvantage. For many executives, the drawback of distance is outweighed by the pleasures of life in a medium-sized city like Halifax with a picturesque country cottage, a canoe, and the sea on one's doorstep.

Dr Harvey Silverstein, a technology consultant at Peat Marwick Stevenson & Kellogg in Halifax and himself a former resident of America, adds that even Nova Scotians' easy-going manner may be an advantage. "We don't drive to the edge of a bargain", he notes.

Perhaps the province's most serious drawback is the dearth of local capital for start-up technology ventures. There is no venture capital fund, and thoughts of launching a small stock exchange in Halifax have so far come to naught.

Mr Jeff Waltcher, president of TGS Systems of Dartmouth, says that "finding finance is our biggest problem. The trouble is finding backers with C$1m or more."

TGS is among 20-25 software companies which have sprouted in Nova Scotia in the past few years. Founded by a former professor at the Technical University of Nova Scotia, TGS last year launched an innovative graphical programming package which combines visual, object-oriented and data-flow programming. The company is selling 250 units a month, mostly to customers in the US.

Several other local technology companies have found recognition far beyond Nova Scotia's borders. Micronav, owned by Canadian Marconi of Montreal and IMP Group of Halifax, is among the international pioneers designing and building airport microwave landing systems. The Sydney-based company is currently negotiating a contract to supply 42 systems to Transport Canada.

Nautel, a maker of high-powered, solid-state radio transmitters, has about two-thirds of its customers (most of them in the broadcasting business) outside North America. Nautel's head office is at Hackett's Cove, a former fishing settlement 30 miles from Halifax.

The company's president Mr Dave Grace says he appreciates the "fairly good work ethic" of his 100 local employees (there are another 50 in the US). On the other hand, he notes that "it's difficult to get people from Ontario to look at working in Nova Scotia", so much of his recruiting is done at universities in the Atlantic provinces.

Universities and government-run research institutes are the base for much of the province's technology work. For instance, the Bedford Institute of Oceanography in Halifax, perhaps the best-known of several marine research agencies in the provinces, is operated by the Federal Department of Fisheries and Oceans.

Similarly, Dalhousie University's medical faculty has helped spawn a sizeable medical research and medical products sector. Dalhousie has a total of 1,100 engineers and scientists on its staff. The Technical University of Nova Scotia (Tuns), which accepts students only from their third year onwards, employs 96 scientists and engineers.

While universities and government have been a driving force in developing the technology sector, a high priority now is to seek closer involvement with the private sector.

The universities are trying to expand their "co-operative" programmes, in which senior students spend part of their course working for a suitable company. The Applied Microelectronics Institute, affiliated to Tuns and to Dalhousie University, is to start a project in partnership with Northern Telecom and Maritime Telephone & Telegraph to seek ways of unlocking bottlenecks in communications systems.

Dr Silverstein complains that the big problem in the private sector "is not a lack of talent, but a lack of communication". In one initiative to encourage greater co-operation and sharing of ideas, the provincial department of industry, trade and technology has set up a group of about 130 software users to discuss quality standards.

Bernard Simon

Oxford blues: processing the berries at Oxford Frozen Foods, Cumberland County

BLUEBERRIES

Fruitful endeavours

THE SIGN on the Trans-Canada Highway in Cumberland County, part of the picturesque north-west corner of Nova Scotia, says it all: Blueberry Capital of the World.

Amherst (population 10,000), a prosperous road and rail junction at the head of the famous Bay of Fundy, has been holding its 18th annual Blueberry Harvest Festival.

Last year the Blueberry Capital crowned a Blueberry Harvest Queen after ten days of merrymaking. This year it was the Cumberland County Exhibition and Harvest Festival, designed to promote tourism as well as blueberries.

Nova Scotia is perhaps internationally best known for lobsters, scallops, herring, cod, apples and the sailing schooner Bluenose, but the past decade has seen its wild or low-bush blueberries reach into the European Community and Japan.

The little blue dew-dusted berries, firmer and stronger in flavour than the larger high-bush cultivated variety, are harvested in their millions along the Philip River valley running north through Cumberland County to the shores of the Northumberland Strait separating Prince Edward Island from the mainland.

Most of Nova Scotia's wild blueberry crop comes from Cumberland County, although Colchester and Pictou Counties, also in the north west, grow more modest crops.

This season's Cumberland County crops were worth almost C$30m, including value at the farm gate and value added by the local processor, Oxford Frozen Foods.

At the Amherst Festival this year you could eat blueberry grunt or dumplings in blueberry sauce, drink blueberry juice, savour blueberry muffins and blueberry cake and trifle; you could sing Blueberry Hill, a popular ode to nature's blue nuggets, and take part in the blueberry raking contest to see who can harvest them fastest in the old back-breaking way.

Raylene Nash, manager of the Blueberry Produce Association of Nova Scotia, says new analyses are being done at the University of Maine that may finally prove whether blueberries can truly claim to be a health food, virtually cholesterol-free and packed with vitamins A and C.

Mr John Bragg, grower and owner of Oxford Frozen Foods, who has done the most over the past 20 years to spread the blueberry message in North America and overseas, says this season's crop in Cumberland County was generous.

The harvest was up from 1989 and at a near-record. Yields per acre averaged 3,000 lbs or more, not far short of the record 4,000 lbs.

Growers got about 35 cents a pound at the farm gate, about the same as 1989 because of the bigger volume, and could show a decent return. Cumberland has about 450 growers and a 3,000-strong army of students, young adults, families and unemployed people descend on the low-bush lands in August to harvest the crop.

But over the past few years, growers have been using more and more mechanical harvesters – a patented invention of Cumberland County, of course. Cumberland growers now have about 200 machines.

The machine comprises a revolving spiked drum that is bolted to the side of a tractor. As the tractor moves forward the drum shakes and gathers the blueberries from the bushes, depositing them into boxes. These are then picked up and loaded onto trucks.

Mr Bragg says 70 per cent of the blueberry crop is now mechanically harvested.

At harvest time, blueberries employ more people in Cumberland than tourism and fishing. "Everyone is into blueberries. The product is marvellous and there's no peeling. Hundreds of kids have paid their studies picking blueberries."

He now grows blueberries on 12,000 acres in Nova Scotia and Maine and operates three freezing plants, including one in Maine.

More than 20 years ago, he was working in his family's timber business and grew blueberries on the side. "We hardly recovered the cost of picking them up, so we decided to build a freezing plant."

He has not looked back since then, and he has invested his surplus in other food products, timber, cable TV, hotels and property.

Robert Gibbens

هكذا من الاصل

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

FT MANAGED FUNDS SERVICE

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible] This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The maximum [illegible]

TIME: [illegible] The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. [illegible]

HISTORIC PRICING: The letter H denotes [illegible]

FORWARD PRICING: The letter F denotes [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

[illegible]

Tel: 071 – 379 – [illegible]

FT MANAGED FUNDS SERVICE

⊕ For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Target Trust Mngrs Ltd (1600)F						
Target Hse, Gatehouse Rd, Aylesbury, Bucks						
Admin: 0296 394000 Dealing 0296 312156						
American Eagle	5	55.24	55.24	59.08	1.30	41482
Australia	5	5.268	5.268	5.638	4.73	41483
Equity	5	136.0	136.0	146.2	5.26	41486
Euro Spec Sits	5	97.57	97.57	104.8	0.66	41487
Financial	5	23.71	23.71xd	25.53	3.40	41488
Global Opps Inc	5	55.75	55.75xd	60.10	0.00	41489
Global Opps Acc	5	56.17	56.17	60.55	0.00	41490
Gold & Gen Inc	5	35.54	35.54xd	38.23	1.05	41491
Gold & Gen Acc	5	66.24	66.24	71.25	1.05	41492
Income	5	84.03	84.03xd	90.45	6.85	41493
Japan & General	5	112.3	112.3	120.7	0.00	41494
Preference Share	5	17.30	17.56xd	18.89	14.04	41497
UK Capital	5	74.77	74.77	80.38	4.35	41500
World Income	5	51.07	51.07xd	54.86	6.44	41501
Worldwide Capital	5	142.2	142.2	153.1	3.57	41502
Templeton Unit Trust Managers Ltd (1200)F						
Atholl Crescent, Edinburgh EH3 8HA 031 228 3932						
Global Growth Acc	6	88.73	89.43	95.65	3.83	46671
Global Growth Inc	6	85.25	85.93	91.90	3.83	46672
Global Balanced Acc	6	89.87	90.40	96.68	5.05	46669
Global Balanced Inc	6	83.73	84.22	90.07	5.05	46670
Value Tst Acc	6½	65.48	66.49	71.12	4.86	42642
Value Tst Inc	6½	63.84	64.83	69.34	4.86	46990
Intl Fin & Of Uts Inc ♥	2	84.90	86.29	90.59	4.04	46989
Intl Fin & Of Uts Acc ♥	2	81.93	83.27	87.42	4.04	41505
Thornhill Unit Trust Managers Ltd (1200)F						
28 St John's Sq, London EC1M 4AE 071-251 6767						
Capital	5	45.08	45.35	48.24	–	47874
Overseas	5	39.43	39.59	42.11	–	43776
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq, London W1M 0DH 071-493 7262						
Dealing 071-493 8545						
American Opps	5	39.31	39.31	41.92	0.27	41506
(Accum Units)	5	40.45	40.45	43.14	0.27	41507
Cash	0	50.84	50.84	50.84	14.00	45247
Accum Units	0	50.84	50.84	50.84	14.00	45248
European Opps ‡	5	56.73	56.73	60.45	0.00	41508
(Accum Units) ‡	5	57.04	57.04	60.78	0.00	46366
Far Eastern Opps	5	99.61	99.61	106.24	0.00	41509
(Accum Units)	5	100.25	100.25	106.92	0.00	41510
Golden Opps	5	25.23	25.23	26.77	0.00	41511
(Accum Units)	5	25.95	25.95	27.53	0.00	46367
Intl Hi-Yield	5	47.90	47.90	51.08	5.39	41512
(Accum Units)	5	52.21	52.21	55.68	5.39	46368
Sanyo Japan Tst	5	60.32	60.32	64.24	0.00	41513
(Accum Units)	5	60.32	60.32	64.24	0.00	41514
Kangaroo	5	22.61	22.61	23.96	1.74	41515
(Accum Units)	[illegible]	[illegible]	[illegible]	[illegible]	1.74	46369
Little Dragons	5	34.29	34.29	36.56	0.00	43157
(Accum Units)	5	34.29	34.29	36.56	0.00	43158
Oriental Income	5	27.77	27.83	29.67	5.89	41516
(Accum Units)	5	32.51	32.57	34.73	5.89	41517
Tiger	5	110.05	110.05	117.38	0.94	41520
(Accum Units)	5	112.15	112.15	119.62	0.94	41521
UK Hi-Yield	5	34.50	34.50	36.79	6.22	41522
(Accum Units)	5	40.37	40.37	43.05	6.22	46302
UK Smllr Cos	5	43.90	43.90	46.94	0.90	41523
(Accum Units)	5	47.83	47.83	51.14	0.90	41524
Three Counties Asset Mngmt Ltd (1430)F						
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034						
Balanced Portfolio	6	82.67	84.58	89.65	6.20	47962
Cash Deposits ♥		102.69	102.69	102.69	14.00	44070
Timberlake Trust Mngrs Ltd (0900)F						
1 White Hart Yard, London SE1 1NX 071-407 5966						
Portfolio	2	87.29	87.29	90.35	2.97	40679

	Bid Price	Offer Price	Yield Gross	City-line
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Oct 31	35.8	37.2	2.91	41064
Euro Expt Oct 31	47.5	49.8	2.64	41065
Fixed Int Ex Oct 31	43.7	44.8	10.64	46594
Japan Expt Oct 31	42.0	43.8	0.84	41066
Managed Ex Nov 1	37.2	38.6xd	5.49	41067
SE Asia Expt Oct 31	56.3	58.0xd	4.64	41068
Sm Cos Expt Oct 31	29.5	30.9	4.97	41069
UK Eqty Ex Oct 31	35.9	37.6	5.21	41070
Phillips & Drew Fund Management Ltd				
Small Co's Oct 3	587.8	630.6	5.55	41138
Do Accum	653.7	701.2	5.55	41139
Int Expt Oct 24	146.9	149.2	4.41	41140
UK Index Oct 3	955.0	975.6	5.25	46945
Do Accum.	1009	1029	5.25	46946
Convertible Oct 26	77.19	79.78	9.98	46938
World ex UK Index Oct 22	648.6	657.6	2.28	47887
Do Accum	648.6	657.6	2.28	47888
Japan Index Oct 29	561.7	569.9	0.65	47881
Do Accum	562.8	570.9	0.65	47882
USA Index Oct 22	699.0	703.8	4.07	47885
Do Accum	708.9	713.6	4.07	47886
European UK Index Oct 29	792.7	812.5	3.01	47879
Do Accum	805.0	825.0	3.01	47880
Pacific ex Jap Index Oct 29	732.7	753.9	5.52	47883
Do Accum	746.5	768.0	5.52	47884
Managed Exempt Oct 31	87.90	89.57	5.75	40338
American Exempt Oct 31	93.97	95.74	4.83	40574
European Exempt Oct 31	102.3	103.6	5.2	40628
Japan Exempt Oct 31	106.0	107.3	0.29	40635
Pacific Basin Oct 31	97.3	100.2	4.58	40636
NM Rothschild Asset Management Ltd				
NC Managed	51.1	54.4xd	4.36	40339
NC Property	174.3	191.2	–	41205
J. Rothschild Fund Managers Ltd				
Intl Exempt Accum	118.3	119.2xd	4.21	44085

INSURANCES

	Bid Price	Offer Price	Yield Gross	City-line
The Life Association of Scotland				
113 Dundas St, Edinburgh EH3 5EB 031-550 5000				
LAS Investment Assurance				
Managed Fund	210.8	221.9	–	42674
Life Equity	357.3	376.2	–	42675
Property	273.9	288.4	–	42676
Money Market	201.7	212.4	–	42677
Fixed Interest	223.5	235.3	–	42678
Japan	280.1	294.9	–	42680
North America	85.3	89.8	–	42681
International	164.3	173.0	–	42682
European	164.0	172.7	–	42684
Far East	76.4	80.5	–	42685
Special Situations	68.1	71.7	–	42687

	Bid Price	Offer Price	Yield Gross	City-line
Merchant Investors Assurance Co Ltd – Contd.				
MI Gar European	168.2		–	42968
MI Gar British Grwth	182.9		–	42970
MI Gar Special Sits.	106.9		–	46015
MI Gar Smaller Co's	132.0		–	42973
MI Gar Australian	57.6		–	42974
MI Gar Int Sel Opps	83.5		–	46736
MI Gar UK & Int Rec	76.1		–	46741
MI Gar Euro Sel Opps	115.9		–	46738
MI Gar Am Emer Grth	83.7		–	46737
MI Gar Prac Invmnt	97.0		–	46740
MI Gar Extra Income	92.9		–	46725
MI Gar Pref Share	81.1		–	46727

Continued on next page

FT MANAGED FUNDS SERVICE

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National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	Yield Gross	Citytline
Managed	298.0	313 7	–	43163
UK Equity	371.8	391 4	–	43164
Overseas Eq	283.0	297 9	–	43165
American	203 1	213.8	–	43166
Far East	305.5	321 6	–	43167
Property	191.3	201 4	–	43168
Fixed Int	232.0	244.3	–	43169
Indexed Gilt	144 9	152.6	–	43170
Deposit	171.7	180.8	–	43171
Pension Fund (Accum Units)				
Managed	412.1	433 8	–	43173
UK Equity	472.9	497.8	–	43175
Overseas Eq	467 1	491.7	–	43177
American	269.3	283.5	–	43179
Far East	507.7	534.5	–	43181
Property	237.3	249.8	–	43183
Fixed Int	281.7	296.6	–	43185
Indexed Gilt	159.3	167.7	–	43187
Deposit	235.9	248.4	–	43189
NPI Pensions Management Ltd				
Managed Fund	928.6	945.4	–	43190

Prices Nov 1 Next dealing Dec 3

Norwich Union Asset Management Ltd
PO Box 140, Norwich NR3 1PP 0603 686787

	Bid Price	Offer Price	Yield Gross	Citytline
NUAM Funds				
Managed Fund	59.9	63.1	–	43191
Stock Market Mngd Fund	[illegible]	59.2	–	43192
Equity Fund	63.8	67.1	–	43193
International Fund	49.8	52 4	–	43194
European Fund	61.2	64 4	–	43195
North American Fund	47.1	49.6	–	43196
Pacific Fund	51.1	53.8	–	43197
Property Fund	86.5	91 1	–	43198
Fixed Interest Fund	52.6	55.3	–	43199
Index linked Sec Fund	58.9	62.0	–	43200
Deposit Fund	65.9	69.4	–	43201
NUAM [illegible]				
Mixed Fund	65.0	68.4	–	43202
UK Ordinary Share Fd	73.2	77.1	–	43203
International Fund	54.5	57 4	–	43204
Property Fund	83 9	88.3	–	43205
Fixed Interest Fund	62.8	66.1	–	43206

[illegible]

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	Citytline
Total Investment Bond				
UK Equity Initial	127.1		–	43429
UK Fixed Int Initial	[illegible]		–	43430
Intl Equities Initial	102.1		–	43431
UK Managed Initial	103 9		–	43432
Property Initial	164.1		–	43433
Money Initial	84.1		–	43434
Special Market Initial	93.9		–	43435
Japan Equity Initial	75 4		–	46762
North American Initial	61 5		–	43437
Pacific Initial	59 6		–	43438
Technology Initial	86 7		–	43439
Nat Resources Initial	43 6		–	43440
European Initial	82 2		–	43442
[illegible]	93.8		–	43443
Swiss Equities Initial	29 4		–	43444
Hong Kong Initial	43.2		–	43445
UK High Inc Eq Init	57 1		–	43446
Int Fixed Interest Init	49.5		–	46408
Int Managed Init	49 1		–	46409
HIP Managed Init	95.2		–	46752
[illegible]	84.1		–	41927
Broker Funds				
Mrgn Performance	60 9	64 2	–	43448
Towerhill Mngd Fd Acc	31.6	33.3	–	43447
YRA Executive Fd	83.1	87.6	–	43449
£ Global Growth Acc	110.0	116.0	–	47160
£ High Income Money Acc	[illegible]	139 6	–	47161
IM Balanced		46 2	–	47162
H F Speculator Fd		114.3	–	43451
PEP Acorn II		102.5	–	46486
PEP Cautionary		66.9	–	47163
AAFS Int Man Fund		106 4	–	46551
Ambrose-Green Inv Port		76.1	–	47914
Individual Pension Funds				
UK Equity Acc	200 6	211.7	–	43454
UK Fixed Interest Acc	195.2	206 0	–	43455
Intl Equities Acc	191 0	201.5	–	43456
UK Managed Acc	163 3	172 2	–	43457
Property Acc	209.1	220 6	–	43458
Money Acc	149 8	158 1	–	43459
Special Market Acc	188 9	199.3	–	43460
Japan Equity Acc	153 1	161.5	–	46763

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED**)

[illegible]

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	Yield Grs	City-line
Dantrust Management (Guernsey) Ltd				
Dantrust Limited	[illegible]	[illegible]	[illegible]	44873
Fipart-Consell Fund Mngrs (Guernsey) Ltd				
Hautevilie G & B Fd.	SFr7 81	7.87	2.62	46845
John Govett Mngmnt International Ltd				
Govett High Inc Gilt	£0 3490	0.3718	13 18	45140
Govett Far East Inv	$0 890	0 951	-	45141
Energy & Resources	$0 670	0 716	-	45142
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$9 2454	9 8323	-	43785
Havelet Throgmorton Mngmt Ltd				
Intl Inv-Stlg High Inc	£9.945	10.560d	10 09	47649
Intl Inv-Intl High Inc	$48 855	51.430d	5.54	47648
Henderson Admin. (Guernsey)				
Prmr Brt Prtfolio	£0.908	-	-	45225
Balanced Grwth $ Prtflo	$1 804	1 944	-	45226
Balanced Grwth £ Prtflo	£1 035	1 111	-	45227
Select Mkts $ Prtflo	$1 824	1 973	-	45228
Inc & Grwth $ Prtflo	$1 668	1 765d	-	45229
High Income £ Prtflo	£0 597	0 634	-	45230
Hill Samuel Fd. Mngrs. (Guernsey) Ltd				
Guernsey Tst.	63 36	67 76	2 86	45234
Kleinwort Benson Intl Fd Mngrs Ltd				
KB Int Ac Bd Acc*	$8 655	9 115	-	45356
KB Japan Fund		$231 44	-	45357
KB Sterling Asset.	£29.37	29.37	-	45358
*Offer price inclusive of maximum preliminary charge				
Kleinwort Benson Islamic Fd Mgmt Ltd				
Islamic Fund	$5 75	6 15	0.50	45366
Lazard Fund Managers (CI) Ltd				
Lazard Cap Gwth Bond	$2827 98	2987 74	8.00	45385
Lazard Cur Acc Fd £	£18 64	18 69	13 7	45367
Lazard Cur Acc Fd US$	$14 62	14 63	7 2	45368
Lazard Cur Acc Fd Y	Y3 800	3 810	6 75	45369
Lazard Cur Acc Fd DM	DM51.25	51 26	7.2	45370
Lazard Cur Acc Fd SF	SFr37.01	37 02	6 7	45371
Lazard Cur Acc Fd FF	FFr157 76	157 77	8 6	45372
Lazard Cur Acc Fd Man.	$15 49	16 27	-	45375
Lazard D Fled Bnd (Inc).	$19 15	20 19	8 48	45386
Lazard D Fled Bnd (Acc)	$24 57	25.90	-	45387
Lazard European Fund	$45 79	48 53	1 0	45376
Lazard Far East.	$53 27	56 69	-	45377
Lazard Global Equity	$25 57	27.19	-	45378
Lazard Int Inc $ (Inc)	$1003.35	1059 07	7.874	45388
Lazard Int $ Inc (Acc)	$2336 67	2463 65	-	45389
Lazard Int Inc £ (Inc)	£8.87	9 36	11 041	46157
Lazard Int Inc £ (Acc)	£11 84	12 47	-	46158
Lazard Japan Fund	$54 52	58 29	-	45390
Lazard Nth Am	$18 07	19.21	1 0	45379
Lazard Sel Port £ Cap	£11 84	12 74	-	45380
Lazard Sel Port £ Inc.	£9 14	9 63	12.1	45381
Lazard Sel Port $ Cap	$12 52	13 48	-	45382
Lazard Sel Port $ Inc	$8 63	9 09	7 61	45383
M & G (Guernsey)				
Island Global Fd	829 6	882.6	0 54	45419
Merrill Lynch Int Capital Mngt (Gsy) Ltd				
Bangkok NAV Oct 31		$62.36	-	42709
Iberia Portfolio NAV.		$9.95	-	46990
NM Financial Mgmt Intl Ltd				
Mngd Currency	£6 106	6 416	3.86	45498
NM Portfolio Selection Fund Ltd				
Conscience	£0 800	0 851	1 80	46250
Far East Gwth	$1 175	1 249	0 00	46251
Smaller Co's	£0.722	0 768	1.50	46252
Special Sits.	£0 584	0 619	3.12	46253
Intl Bond	$0 893	0.950	9 68	46254
American Fund	$1 773	1 886	2.90	45502
American Smaller Cos	$0 980	1.042	0 00	45504
Australian Fund	£1.213	1 289	3 42	45506
British Fund	£1 282	1.363	8.16	45508
European Fund	£1.874	1 993	1.08	45510
Gold Fund	£0 506	0.538	0 00	45512
Hong Kong Fund	£1 415	1 502	9.69	45514
International Fund	£1.038	1 104	0 47	45516
Japanese Fund	£2 263	2.407	0 00	45518
Japan Smaller Cos	£4 485	4.771	0 00	45520
Singapore & Malaysian	£0 915	0 973	0.00	45522
Dollar Fixed Interest	$0 973	1 035	10.12	45524
Sterling Fixed Int.	£0 862	0 916	11 71	45526
Deutschemark Currency		DM4 994	2.36	45528
Dollar Currency		$0 957	4.91	45531
Sterling Currency		£1 003	10.48	45532
Yen Currency		Y197 4	1 4	45534
Managed Currency	£0 915	0 973	6.94	45536
Nikko Capital Mngt (Europe) Ltd				
Japan Index Fund	Y2,722	2,749	-	45559
New Generation Fd $	$24 77	25 01	-	45560
Japan Index Alpha	Y8,628	8,758	-	46380
Jap Sector Rotation	Y7 181	7,287	-	47334
Prudential Intl Financial Services Ltd				
Holborn Currency Fund				
Managed Sterling	128 6	129 0xd	10 89	45637
Managed Dollar	$14 19	14 24xd	7 62	45638
Sterling Deposit	100 0	100 0	10.37	45639
Dollar Deposit	$10 00	10 00	-	45640
DM Deposit	DM50 10	50 29xd	6.25	45641
SWFr Deposit	SFr50.00	50 00	-	45642
Yen Deposit	Y5 002	5 021xd	5 34	45643
Saudi International (Guernsey) Ltd				
Intl Bond	$10 10	10 28	-	46774
Intl Dollar	$10 19	10 20	-	46775
Intl Equity	$10 41	10.77	-	46776
Falcon High Income	$88 91	89 05	-	44741
Sovereign Asset Management Limited				
Olympic Options Ltd	$8 7079	8 9795	-	40411
Stonehage Fund Mngrs Ltd				
Intl Man Fd	$11 24	11 30	-	46492
Stronghold Asset Mngmt (Guernsey) Ltd				
Tech and Comm*	$7 89	8.29	-	44712
Pacific Basin Fd	$72 17	75.70	-	44713
Western European	$15.55	16.37	-	44714
Tyndall International (Guernsey) Ltd				
Capital Defender	91.18	1 25	9 68	45880
Hi Yield Bond	62.50	65 70xd	15 22	45881
Internat. Spec. Sits	34.00	35 80xd	1 66	45882
Marunouchi Fd	76 70	80 60xd	-	45883
U.S. Treasury Securities Fund Ltd				
Short Term Shares		$735 43	-	45903
Fixed Income Shares		$854 98	-	45904
Yamaichi Capital Mangmt (Guernsey) Ltd				
Japan Meta Growth		$11 71	-	46090
Yamaichi ISS Fund		$7.82	-	46591
Yamaichi CB Pin Fund		$8.39	-	47335
Thai Inv Fund		$9 36xd	-	46493

IRELAND (SIB RECOGNISED)

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar	5	-	0 94	1 001	-	43442

ISLE OF MAN (SIB RECOGNISED)

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Allied Dunbar Intl Fund Mgrs (1600)H						
Lord Street, Douglas, IoM 0624 661551						
ADI Managed(z)	5	$0.5217	0.5217	0.5556	-	44675
ADI Mgd Currency(z)	5	$0 4060	0 4060	0 4275	-	44676
ADI W'wide Eq(z)	5	$0 5582	0 5582	0.5944	-	44677
ADI Nth Amer Gth(z)	5	$0.5220	0 5220	0 5559	-	44678
ADI Far East (z)	5	$1.0164	1.0164	1.0824	-	44679
ADI Gilt & Income(z)	5	£0 2409	0 2409	0 2536	-	44680
ADI UK Cap Gth (z)	5	£0.1829	0.1829	0 1947	-	44681
ADI Europe Fd (z)	5	$1.0919	1.0919	1 1632	-	44682
For conversion Prices of Shares Phone 0624 662860						
Asset Global Funds Ltd						
Abacus Hse Mona St, Douglas IoM 0624 20097						
French Equity	5	FFr124	124 4	131.8	-	44689
UK Gilt	5	£9 89	9 89	10 43	-	44690
UK Equity	5	£11 54	11 54	12.39	-	44691
US Bond	5	$9 80	9.80	10 41	-	44692
CMI Fund Managers (IoM)						
Clerical Medical Hse, Douglas, IoM 0624 25[illegible]						
High Income	5	£0 4673	0 4673xd	0 5130	11 9	[illegible]
CMI Core Portfolio Fund						
UK		£-	0 8130	0 8748	-	47540
USA		£-	0.7198	0 7682	-	47541
Japan		£-	0 6233	0 6579	-	47539
Equity & Law Intl Fund Mngrs Ltd						
Victory Hse Prospect Hill Douglas IoM 0624 77877						
Total Income Fd	5¼	97 07	97 09	102 18	14.3	41566
Gartmore Fund Managers (IoM)						
PO Box 32, Douglas, IoM 0624 27610						
Intl Grth	5¼	414 9	414 9	442.8	0 9	45095
Mercury Fund Managers IoM Ltd						
11 Hill Street, Douglas IoM 0624 662255						
Merc IoM Fund	5	95 08	95 80xd	102.2	7 7	45970
Merc Intl Bond	5	48 69	48 69xd	51 20	11.3	45971
Refuge Overseas (1200)						
4th Floor Victory Hse, Douglas IoM 0624 77500						
Gilt Fd	5¼	96 86	96.86xd	102.27	9 70	46799
International Bond	5¼	81 11	81 11xd	85 78	11.00	46802
ECU & DM Bond	5¼	93 06	93 06xd	98.53	9.13	46798
Stlg Deposit	0	101.30	101.30xd	101.30	12.30	46801
US Dollar Deposit	0	$1 7559	1 7559xd	1 7559	6.52	46803
LJ International	5¼	82 38	83.59xd	88 93	-	46804
UK Equity Fd	5¼	86 63	86 63xd	91.83	-	47294
Tiger Fd	5¼	92 17	93 92	99 91	-	47344
European Opps	5¼	85 83	86 92	92.47	-	48004
Sun Life Management (IoM) Ltd						
PO Box 178, Douglas, IoM 0624 22444						
Secure High Income	6	£0 9129	0 9129xd	0 9784	9.72	47486

ISLE OF MAN (REGULATED)(**)

	Bid Price	Offer Price	Yield Grs	City-line
CAL Investments (IoM) Ltd				
CAL C & C*	52 2	55.0	-	44795
*Dealings Monday				
Duncan Lawrie Inv. Mgt. Ltd				
DL Sterling	118 0	123 9	4 8	44881
DL International	$1.56	1 66	2 3	44882
Equity & Law International Fund Mgs Ltd				
European Equity	165 60	174 29	-	44904
Far Eastern Equity	$2 2975	2 4181	-	44905
North Amer Equity	$1.0141	1 0673	-	44906
UK Equity	133 22	140 21	-	44907
Global Equity	92 87	97.74	-	44908
UK Gilt & Fxd Int.	96 04	101 08	-	44909
Dollar Deposit		$1 0134	-	44911
Sterling Deposit		104 82	-	44912
Managed Currency	97 78	102 91	-	44914
Gartmore Fund Managers (IoM)				
Intl Inc.* Nov 2	17 70	18 8xd	14 00	45094
* Projected yield				
John Govett Management (IoM) Ltd				
S E. Asian Wrrt Fd Ltd		$6.90	-	46013
Paragon Sterling Fd Ltd.		£9 73	-	40333
IBI Global Funds Limited				
Intl Stlg Gwth	£12 51	13.17	-	45289
Intl $US Gwth	$12.76	13 44	-	45290
High Income Gilt	£18.53	19 21	-	45291
International Equity	£11 63	12.25	-	45292
International Bond	£14 76	15.30	-	45293
Managed Currency		£21 89	-	45294
Refuge Overseas				
Ulster Fd A	86 71	92 25xd	-	46800

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

A precarious living

Trading on the futures market can be a precarious way of making a living, and during the last volatile week there were some large losses as well as big profits in the short sterling contract on Liffe.

UK clearing bank base lending rate 14 per cent from October 8, 1990

Daily volume last week in the December contract rose from an average of some 7,000 lots to 40-50,000 in a scramble to buy short sterling on speculation that UK bank base rates will be cut again before the end of the year. This suggests that the down-turn on Friday caught a number of traders with costly long positions.

December short sterling was 85.60 on October 3, a couple of days before the announcement of a 1 per cent cut in base rates. On the following Monday it rose to a peak of 87.05; the earlier figure points to base rates of 14¼ per cent by delivery of the contract on December 19, while the latter suggests 13 per cent.

Prices drifted lower as the ERM euphoria faded. Last Monday December delivery had fallen to 86.65. On Wednesday, amid a flurry of activity, it touched 87.12 following warnings of recession from the Confederation of British Industry. This discounted a 1 per cent cut in base rates by delivery, even though the cash market had only fallen about ¼ per cent.

A combination of events, including an immediate a weakening of sterling on the resignation of Sir Geoffrey Howe, the UK deputy prime minister, and higher German interest rates, knocked short sterling down to 86.82 on Friday. There is technical support at 86.66, but even this points to a cut of ½ per cent in base rates by mid-December. On Friday sterling was at the bottom of the ERM and 2 pfennigs below its central rate against the D-Mark, which on the surface anyway is not a recipe for another cut in rates.

£ IN NEW YORK

Nov 2	Close	Previous Close
£ Spot	1.9590-1.9600	1.9440-1.9450
1 month	0.98-0.96pm	0.94-0.92pm
3 months	2.69-2.66pm	2.57-2.54pm
12 months	8.25-8.15pm	7.83-7.73pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Nov 2	Bank of England Index	Morgan** Guaranty Changes %
Sterling	94.2	-17.9
U.S Dollar	60.5	-18.2
Canadian Dollar	100.9	-0.5
Austrian Schilling	110.2	+12.1
Belgian Franc	112.1	-1.8
Danish Krone	110.9	+6.4
Deutsche Mark	119.7	+25.4
Swiss Franc	115.2	+23.7
[illegible]	[illegible]	[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

Nov 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.9470 - 1.9585	1.9505 - 1.9515	0.96-0.94cpm	5.84	2.68-2.65pm	5.46
Canada	2.2660 - 2.2795	2.2780 - 2.2790	0.32-0.25cpm	1.50	0.76-0.62pm	1.21
Netherlands	3.30 - 3.31½	3.30 - 3.31	1½-1¼cpm	5.45	4¼-3¾pm	4.84
Belgium	60.25 - 60.65	60.35 - 60.45	25-23cpm	4.77	67-63pm	4.30
Denmark	11.19¾ - 11.26¾	11.24¼ - 11.25¼	3¾-3¼orepm	3.80	9¾-8¾pm	3.31
Ireland	1.0870 - 1.1050	1.0930 - 1.0940	0.40-0.35cpm	4.12	0.95-0.90pm	3.38
Germany	2.92¾ - 2.93¾	2.92¾ - 2.93¾	1½-1¼pfpm	5.38	3½-3¼pm	4.61
Portugal	257.70 - 259.30	258.30 - 259.30	20-41cdis	-1.41	106-167dis	-2.11
Spain	183.90 - 185.45	183.90 - 184.20	1-10cdis	-0.36	28-41dis	-0.75
Italy	2199 - 2208½	2202¼ - 2203¼	7-5lirepm	3.27	15-13pm	2.54
Norway	11.42¾ - 11.48	11.43¾ - 11.44¾	3-2½orepm	2.88	7¾-6¾pm	2.47
France	9.83½ - 9.85½	9.83¼ - 9.84¼	3¾-3¼cpm	3.96	8¾-8½pm	3.51
Sweden	10.90½ - 10.96	10.90½ - 10.91½	½-¾oredis	-0.76	2¾-3¼dis	-1.05
Japan	250½ - 251½	250½ - 251½	1⅛-1¼ypm	5.98	3½-3¼pm	5.38
Austria	20.56 - 20.68	20.56 - 20.59	8¾-8grocpm	4.92	24½-22¼pm	4.53
Switzerland	2.47¼ - 2.48½	2.47¼ - 2.48¼	1¼-1cpm	5.45	3¼-3pm	5.05
ECU	1.4160 - 1.4210	1.4170 - 1.4180	0.22-0.21cpm	1.82	0.71-0.68pm	1.96

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.82-4.77cpm 12 Month 8.27-8.17cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Nov 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.9470 - 1.9585	1.9505 - 1.9515	0.96-0.94cpm	5.84	2.68-2.65pm	5.46
Ireland†	1.7780 - 1.7880	1.7870 - 1.7880	0.33-0.28cpm	2.05	1.05-0.95pm	2.24
Canada	1.1635 - 1.1670	1.1645 - 1.1655	0.42-0.44cdis	-4.43	1.23-1.28dis	-4.31
Netherlands	1.6885 - 1.6990	1.6935 - 1.6945	0.05-0.08cdis	-0.46	0.24-0.28dis	-0.61
Belgium	30.80 - 31.05	30.90 - 31.00	2-4cdis	-1.16	5-9dis	-0.90
Denmark	5.74 - 5.77¼	5.76¼ - 5.76¾	0.85-1.15oredis	-2.08	2.85-3.45dis	-2.19
Germany	1.4975 - 1.5070	1.5015 - 1.5025	0.07-0.09pfdis	-0.64	0.30-0.33dis	-0.84
Portugal	132.35 - 133.00	132.35 - 132.45	76-86cdis	-7.34	240-270dis	-7.70
Spain	[illegible]	94.35 - 94.45	49-53cdis	-6.48	144-152dis	-6.27
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

NEW YORK — Treasury Bills and Bonds

[illegible]

Nov.2	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.35-8.50	8.30-8.50	8.55-8.70	8.60-8.75	8.70-8.90	8.50
Paris	9⅞-9⅞	9⅞-9⅞	9¾-9⅞	9⅞-10	10-10¼	9.50
Zurich	7⅝-7⅞	8⅝-8⅞	-	8¾-8⅞	-	-
Amsterdam	8.37-8.50	8.40-8.47	-	8.58-8.65	-	-
Tokyo	7⅞-7⅞	8-8⅛	-	8¼-8⅜	-	-
Milan	9¾-10¼	11-11¼	-	11⅛-11⅜	-	-
Brussels	7.50	9-9¼	-	9⅝-9¾	-	-
Dublin	10⅛-10⅛	10⅛-10⅛	10⅛-10⅛	10⅛-10⅛	10¼-10⅛	-

LONDON MONEY RATES

Nov 2	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15	14½	14⅛	13⅞	13½	13
Interbank Bid	12	14	13⅞	13⅝	13¼	12¾
Sterling CDs	-	-	14⅛	13¾	13¼	12⅞
Local Authority Deps.	14⅛	14¼	14	13¾	13¼	12⅝
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	14	14	13⅞	13½	-	-
Company Deposits	-	-	14	13¾	13⅛	12⅞
Finance House Deposits	-	-	14⅛	13¾	13⅛	12⅝
Treasury Bills (Buy)	-	-	13⅞	13½	-	-
Bank Bills (Buy)	-	-	13⅞	13⅛	12¾	-
Fine Trade Bills (Buy)	-	-	14⅞	13⅞	13½	-
Dollar CDs	-	-	7.92	8.00	8.00	8.07
SDR Linked Dep. Offer	-	-	8⅝	9⅛	9⅛	9¼
SDR Linked Dep Bid	-	-	8⅜	8⅞	8⅞	9
ECU Linked Dep. Offer	-	-	9⅝	9⅞	10	10⅛
ECU Linked Dep. Bid	-	-	9½	9¾	9⅞	10⅛

Treasury Bills (sell); one-month 13⅝ per cent; three months 13⅛ per cent; six months 12⅝ per cent; Bank Bills (sell); one-month 13⅞ per cent; three months 13⅛ per cent; Treasury Bills; Average tender rate of discount 13.0693 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day October 31, 1990. Agreed rates for period Nov 26, 1990 to Dec 25, 1990. Scheme I. 15.08 p.c.. Schemes II & III: 15.32 p.c. Reference rate for period Sept 29, 1990 to Oct 31, 1990. Scheme IV&V: 14.164 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15 from November 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 10½ per cent; one-three months 12 per cent; three-six months 12 per cent, six-nine months 12 per cent, nine-twelve months 11½ per cent; Under £100,000 10½ per cent from Oct 8, 1989. Deposits withdrawn for cash 5 per cent.

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

OTHER CURRENCIES

[illegible]

CHICAGO

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 2 1990 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY NOVEMBER 1 1990 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1990 High	1990 Low	Year ago (approx)
Australia (77)	118.98	-1.8	90.42	96.72	92.91	101.85	-0.9	7.57	121.19	92.07	99.93	94.98	102.75	158.31	118.98	149.61
Austria (19)	199.37	+0.9	151.50	162.07	155.69	155.35	-0.5	1.76	197.56	150.09	162.91	154.84	156.09	285.63	178.57	146.56
Belgium (61)	139.17	+1.0	105.76	113.12	108.67	106.22	+0.0	5.45	137.83	104.72	113.65	108.02	106.22	160.02	126.67	138.62
Canada (120)	123.75	+0.1	94.04	100.59	96.63	104.39	+0.1	3.81	123.65	93.94	101.96	96.91	104.31	153.61	121.24	148.72
Denmark (33)	255.73	+0.0	194.33	207.89	199.69	200.51	-0.3	1.48	255.65	194.22	210.81	200.36	201.06	277.62	234.05	211.82
Finland (26)	105.50	+2.3	80.17	85.76	82.38	79.41	+2.0	3.84	103.14	78.35	85.05	80.83	77.82	152.29	98.91	124.90
France (122)	140.08	-0.4	106.45	113.86	109.37	110.80	-0.6	3.71	140.66	106.86	115.98	110.23	111.48	168.85	124.96	131.29
Germany (91)	114.13	+0.3	86.73	92.79	89.12	89.12	-0.1	2.55	113.84	86.49	93.88	89.22	89.22	144.63	101.38	93.85
Hong Kong (48)	120.82	+0.4	91.82	98.22	94.35	120.98	+0.4	5.45	120.33	91.41	99.22	94.31	120.46	147.49	112.24	115.72
Ireland (17)	160.94	+0.0	122.30	130.83	125.67	126.86	-0.7	4.12	160.97	122.29	132.74	126.16	127.71	198.57	139.04	158.69
Italy (91)	84.60	-0.9	64.29	68.76	66.06	71.33	-0.9	3.45	85.34	64.83	70.37	66.88	71.99	109.26	80.87	87.61
Japan (454)	132.03	+0.9	100.33	107.33	103.11	107.33	-0.5	0.79	130.84	99.41	107.89	102.56	107.89	197.28	106.58	186.10
Malaysia (35)	198.04	-0.2	150.49	160.98	154.64	206.01	-0.2	3.04	198.52	150.82	163.69	155.59	206.51	250.89	182.96	193.34
Mexico (13)	551.77	+0.0	419.30	448.53	430.87	1764.57	+0.0	0.39	551.77	419.19	454.98	432.44	1764.57	561.41	324.53	303.43
Netherland (41)	133.23	+0.5	101.24	108.30	104.04	103.01	+0.2	5.21	132.53	100.69	109.28	103.87	102.77	149.03	127.56	123.30
New Zealand (18)	48.15	-2.6	36.59	39.14	37.60	42.16	-1.6	7.99	49.44	37.56	40.77	38.75	42.83	75.36	48.15	76.61
Norway (23)	230.38	-0.7	175.07	187.28	179.91	183.40	-0.8	1.69	231.91	176.19	191.24	181.76	184.85	276.79	202.34	172.04
Singapore (25)	157.75	-0.9	119.88	128.24	123.19	124.42	-0.9	3.44	159.12	120.89	131.21	124.71	125.50	209.24	147.24	155.36
South Africa (60)	162.52	-1.1	123.51	132.11	126.91	132.80	-0.4	4.09	164.35	124.86	135.52	128.81	133.31	251.39	151.50	157.91
Spain (42)	144.98	-1.1	110.17	117.86	113.21	103.68	-1.6	5.35	146.66	111.42	120.94	114.94	105.33	182.25	128.54	158.36
Sweden (27)	170.08	+0.0	129.24	138.26	132.81	140.81	-0.5	2.89	170.10	129.23	140.27	133.32	141.52	234.93	158.07	173.85
Switzerland (68)	90.45	+1.2	68.73	73.53	70.64	71.24	+0.8	3.00	89.41	67.93	73.73	70.09	70.68	109.77	85.00	84.53
United Kingdom (209)	158.69	+0.0	120.59	128.99	123.91	120.59	+0.1	5.76	158.62	120.51	130.78	124.30	120.51	176.18	139.87	139.80
USA (533)	125.62	+1.6	95.46	102.12	98.10	125.62	+1.6	3.92	123.63	93.93	101.95	96.90	123.63	148.95	119.06	137.20
Europe (963)	135.05	+0.0	102.62	109.78	105.46	104.21	-0.1	4.46	134.99	102.56	111.31	105.80	104.36	157.65	124.91	122.37
Nordic (112)	182.32	+0.0	138.54	148.21	142.37	141.01	-0.4	2.15	182.32	138.51	150.34	142.90	141.51	223.29	172.38	166.90
Pacific Basin (655)	130.83	+0.8	99.42	106.36	102.17	107.28	-0.5	1.18	129.83	98.63	107.06	101.76	107.84	192.75	107.82	181.94
Euro - Pacific (1618)	132.90	+0.5	101.00	108.03	103.78	106.77	-0.4	2.54	132.28	100.50	109.07	103.67	107.16	174.18	116.03	158.17
North America (653)	125.41	+1.5	95.30	101.96	97.95	124.22	+1.5	3.91	123.55	93.86	101.89	96.85	122.38	148.43	119.26	137.79
Europe Ex. UK (664)	120.03	+0.0	91.21	97.59	93.75	94.40	-0.3	3.53	119.98	91.15	98.96	94.06	94.68	145.62	109.94	110.80
Pacific Ex. Japan (201)	116.03	-1.0	88.17	94.33	90.61	103.11	-0.4	6.34	117.16	89.01	96.63	91.83	103.57	146.72	116.03	131.91
World Ex. US (1811)	133.13	+0.4	101.17	108.23	103.96	107.38	-0.3	2.59	132.55	100.70	109.31	103.89	107.75	173.77	117.12	157.93
World Ex. UK (2045)	126.64	+0.9	96.24	102.96	98.90	112.38	+0.3	2.70	125.49	95.34	103.49	98.36	112.02	182.00	115.37	150.46
World Ex. So. Af. (2284)	129.29	+0.8	98.25	105.11	100.97	113.03	+0.3	3.03	128.21	97.41	105.73	100.50	112.69	161.84	118.04	149.44
World Ex. Japan (1890)	129.45	+0.8	98.37	105.24	101.10	116.16	+0.7	4.22	128.45	97.59	105.93	100.69	115.32	151.59	124.31	132.10
The World Index (2344)	129.49	+0.8	98.40	105.26	101.12	113.18	+0.3	3.03	128.43	97.57	105.91	100.66	112.84	162.05	118.33	149.49

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Belgian market closed November 2.

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

FINANCIAL TIMES STOCK INDICES

	Nov 2	Nov 1	Oct 31	Oct 30	Oct 29	Oct 26	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	80.09	80.26	80.24	80.11	79.91	79.96	84.20	74.13	127.4	49.18
Fixed Interest	89.13	88.97	88.85	88.82	88.73	88.78	92.91	83.80	105.4	50.53
Ordinary	1570.7	1572.1	1592.9	1575.3	1600.0	1598.4	1968.3	1510.4	2008.6	49.4
Gold Mines	170.2	170.5	171.8	168.9	168.1	170.6	378.5	163.2	734.7	43.5
FT-Act All Share	982.44	982.49	992.67	985.87	997.43	997.77	1226.83	962.09	1238.57	61.92
FT-SE 100	2030.7	2028.0	2050.3	2033.9	2062.1	2063.1	2463.7	1990.2	2463.7	986.9

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

BRITISH FUNDS—Contd

Index-Linked

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

Continued on next page

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
22.0	Clayhithe..	104	–1.0	7.7	25.6	Feb July	2160
7 05	♦Clearmark 5p..	5½	–17 9	–	9'85	–	2553
1 11	♦Colorgen Inc. $0 01	7½	...	–	–	–	2188
1 28	♦Comac Group 5p.	20	...	–	25 4	–	2194
44.2	Community Hospital	180	3.4	3.9	24 9	May Nov	4736
1 91	♦Co of Designers 5p.	11	...	‡	23.7	Aug Apr	2204
26 9	Computer People 5p	198	–2 5	3 9	24 9	Nov Jun	2209
7 07	Cont. Station'y 10p..	41	–8.9	13.0	25 6	Aug Feb	2223
294 8	Cookson 50p	81	9 5	14 8	8.10	Nov Jul	2233
10.8	Cooper (Alan) 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.) – Contd.

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
4 62	Shiloh	80	14.3	4.6	14.5	Dec Jun	4011
37.6	Sidlaw Group...	118	.....	8.7	11.6	Jan Jul	4017
528.1	Siebe...........	273	7.5	7.3	20.8	Mar Oct	4018
42.3	Silentnight 10p....	93	–2.1	7.3	29.5	Jan July	4020
17.7	Silvermines 2½p...	55	–8.3	9.1	22.10	Jan. July	1476
33.6	Sinclair (Wm.)	210	1 4	4.1	12.3	Nov Apr	4026
46.4	Sketchley........	80	–1.2	10.8	27.11	Jan Aug	4033
1,079.1	Smith & Neph 10p...	108½	2.8	5.2	8.10	July.Dec.	4043
7,611.2	SmithKline Beecham A.	574	–2.7	2.6	20.8	Jan Jly Oct	4836

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

MOTORS, AIRCRAFT TRADES – Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY – Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST – Contd

INVESTMENT TRUST – Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

For York Trust see Babcock Prebon

WATER

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES – Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

Lonrho	21
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Exploration Co. of Louisiana (Section: Oil & Gas)
Do. Cv. Prf. Warrants (Oil & Gas)
Faber Prest (Industrials)
River & Mercantile Smaller Co's Tst. (Investment Trusts)
Do. Warrants (Investment Trusts)
Deletions: AMS Inds. (Electricals)
First Pacific Hldgs. (Overseas Traders)
Pacific Telesis (Americans)
VPI (Papers)
Yorkshire Radio (Leisure)

4pm prices November 1

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A - A - A —								
37½	9½	AAR	.48	4.7	6	822	10¼	10⅛	10¼	- ¼
9¼	7¾	ACM n	1.01	12.		366	8⅜	8⅛	8¼	+ ⅛
11½	8¾	ACMIn	1.26	12.		1534	10⅛	9⅞	10⅛	+ ¼
9¼	6½	ACM M	n1.01	14.		308	7½	7¼	7⅜	
12⅛	10	ACMMM	1.50	13.		163	11⅝	11⅝	11⅝	
11½	6⅝	ACM Sc	1.26	13.		807	9⅜	9½	9⅜	+ ⅛
9⅜	7¼	ACMSp	1.01	12		732	8¼	8	8¼	+ ¼
24⅝	15½	AL Lab	.16	.9	16	90	18⅛	17⅞	18⅛	+ ¼
5⅜	1	AM Intl				1210	1⅛	1	1⅛	+ ⅛
21⅛	4⅝	AM In pf	2	36.		65	5⅝	5⅜	5⅝	+ ½
74¼	39⅜	AMR			14	2111	47½	45⅞	47⅛	+ 1
4	1⅝	ARX			5	76	1⅝	d 1½	1½	- ⅛
72⅛	38¼	ASA	3a	6.8		448	44⅝	44	44⅛	- ¼
3½	3½	ATTC wt				2727	3⅝	d 3¼	3⅜	- ⅛
45⅝	31¼	AbtLab s	.84	2.1	19	9413	40⅜	39⅜	40⅝	- ⅝
14	11⅛	Abitibi g	.50			104	11⅝	11⅛	11⅛	- ¼
11⅝	4⅝	AcmeC	.40	7.3	7	7	5½	5⅜	5½	+ ⅛
8⅞	5⅜	AcmeE	.32	5.8	9	4	5½	5½	5½	
32⅜	18⅞	Acuson s			19	1076	23⅞	23¼	23⅞	+ ⅞
18⅞	14⅛	AdaEx	2.06e	14.		190	15⅛	14⅞	15⅛	+ ¼
15⅜	10	Adobe				79	11	10¾	11	
20¼	16½	Adob pf	1.84	11		8	16⅞	16⅝	16⅞	+ ¼
21⅝	19¾	Adob pf	2.40	12.		12	20⅛	20	20⅛	+ ⅛
11⅞	3⅝	AMD				1288	4	3⅞	3⅞	
32⅞	14	AMD pf	3	21		289	15¼	d13⅞	14	- 1⅞
9¼	1¼	Advest	.16	9.1		480	1⅞	d 1⅝	1¾	- ⅛
62	28	AetnLf	2.76	9.2	7	10862	30¼	29⅝	30⅛	+ ⅝
13	6¼	AfilPb	.24	3.8		874	6½	6⅜	6⅜	
22½	10⅞	Ahmans	.88	8.0	4	5805	11¼	d10⅞	11	- ⅛
3⅝	1⅞	Aileen			9	106	3⅜	3¼	3⅜	+ ⅛
61	42⅞	AirPrd	1.44	2.9	12	2455	49⅞	48⅛	49⅞	+ 1½
27	13½	AirFrt s	.30	2.0	8	705	15⅝	15	15¼	
24½	11¼	Airgas			22	17	12⅛	11⅞	12	+ ⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 41

NYSE COMPOSITE PRICES

Continued from previous Page

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
69⅞	29	Xerox	3	9.9		52551	30¼	29¼	30¼	+ ⅜
32⅜	13⅛	XTRA	.72	5.0	8		14½	14⅛	14⅛	− ⅛
26	12⅞	XTRA pf1.94		15.		10	12⅞	12⅞	12⅞	− ⅛
4	⅞	Zapata				440	⅞	11-16	⅞	
9½	3⅛	[illegible]				2	3½	3⅛	3⅛	+ ⅛
13¾	4	ZenithE				2930	6½	6⅛	6⅜	+ ⅜
19⅞	10½	[illegible]	.90	8.9	6	307	10⅛	d 9⅞	9⅞	− ⅛
8	4⅝	Zenix	.80	19.		317	5	4⅝	5	+ ⅛
17⅛	9¾	Zero	.40	3.8	11	57	10½	10⅛	10½	+ ⅛
51⅛	29⅛	Zurn	.98	2.8	14	367	32⅛	31¾	31⅞	− ⅛
12⅝	10⅛	Zweig	1.19e	12.		357	10⅛	10⅛	10⅛	+ ⅛
10	7⅝	ZweigTl	.84	10.0		369	8½	8⅜	8½	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices November 1

[illegible]

NASDAQ NATIONAL MARKET

3pm prices November 1

[illegible]

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
WilmTr	1.44	8	600	31⅛	30⅝	30⅞	−1⅛
WiserO	.40	27	732	16⅝	16⅜	16⅝	+ ⅛
Wolohn	.20b	7	10	12½	12½	12½	+ ½
WrlvErp			181	6⅞	5⅞	6⅛	+ ⅛
WrlvEx pf			4	16⅞	16⅜	16⅜	− ⅛
Worthg	.60	15	177	20⅛	19⅞	20	− ⅛
Wyman	.80		780	8⅛	6⅛	7	−1⅛
−X−Y−Z−							
XL Dta		4	132	7	6⅜	6⅜	− ⅛
XOMA			1052	17½	16⅛	16⅛	− ⅛
Xilinx			211	11⅞	11⅛	11⅞	+ ⅜
YonEnS	1.52	15	475	19	18⅛	18⅞	− ⅛
YelowF	.94	24	426	21⅛	20⅛	21⅛	+ ⅛
YorkRs		10	560	8⅞	8⅛	8½	− ⅛
Zeos		16	143	14	13⅛	13½	−1
ZionBc	1.44	7	265	27	26	26⅛	+ ⅛

MONDAY INTERVIEW

Bearer of bad news for debtors

Yoh Kurosawa, president of the Industrial Bank of Japan, speaks to Stefan Wagstyl

Hiroshi Nakamura/Asahi Evening News

'All Japanese banks are suffering'

MR Yoh Kurosawa, the newly-appointed president of the Industrial Bank of Japan, chooses his words carefully. But, like a doctor with bad news for his patient, he makes no attempt to hide the seriousness of what he has to say about the current outlook for banks and for borrowers around the world.

"I don't think there will be a credit crunch," he says. "But Japanese bankers will have cut asset growth from about 20 per cent a year in the late 1980s to around 5 per cent this year. That's a drastic change.

"When all Japanese banks slow their expansion rates then margins will go up both inside and outside Japan. Costs for borrowers will rise."

Moreover, banks will think twice about committing themselves to large projects, even "feasible" ones such as Eurotunnel, says Mr Kurosawa. "You can't expect Japanese banks to necessarily support similar projects now because our expansion rate has slowed down so much. There's a real change in attitude."

Mr Kurosawa has a reputation for being tough, particularly with recalcitrant debtors. He has repeatedly stirred up controversy in the Japanese banking community with his hard-line attitude to Third World states. Banks should bite the bullet, write off uncollectables and reject pleas for more money, is his view. He says he learnt about the folly of relying on government guarantees from Dr Wilfried Gut, former chairman of the supervisory board of Deutsche Bank, whom he visited in the early 1980s when Poland first sought to reschedule its huge hard currency borrowings.

"I asked Dr Gut how much he thought he would get back. He said: 'Nothing.' I was very shocked since at that time no one thought that way. But later I thought about what Dr Gut had said. He was right."

However, there is more to Mr Kurosawa than the tough-talking banker. Like some other well-travelled Japanese businessmen, he takes seriously the need to internationalise Japan. Unlike most of them, he has very clear opinions on how this has to be done. He is not obsessed with relations with the US, but gives equal weight to Asia and Europe, particularly Germany, where he spent time on secondment to Deutsche Bank and was later IBJ's chief representative in Frankfurt. As well as Edwin Reischauer, the former US Ambassador to Japan who died earlier this year, Mr Kurosawa counts among his friends Helmut Schmidt, the former West German chancellor.

His time in Germany has left a deep impression, not least on his view of Japan and Germany's relative positions in the world. "We should learn from Germany. Germany has done a lot to restore relations with France and other countries since the Second World War. We have not done that much with Korea or China."

There are other depths to Mr Kurosawa. In a country of religious non-believers, he is a Christian, who cites the Bible among his favourite books. He became a Christian 12 years ago while grieving for his son, who died of leukaemia at the age of 15.

Mr Kurosawa was chosen for the top ranks of IBJ from an early age. A graduate of Tokyo University's law department, he was promoted through domestic and international posts, before becoming deputy president in 1984. It appeared he might run out of time to ascend to the presidency since his predecessor, Mr Kaneo Nakamura, was widely expected to stay in office at least until next year, when 63-year-old Mr Kurosawa might have been passed over in favour of a younger man. But this summer Mr Kisaburo Ikeura, the bank's honorary chairman, retired, leaving the way open for Mr Nakamura to succeed him and for Mr Kurosawa to inherit the presidency.

He has taken over when Japanese banks face their most difficult times since the 1970s. The plunge in Japanese equities this year has eroded the banks' capital bases. Also, the market's weakness makes it difficult for banks to raise new capital. So after 10 years of rapid expansion of assets, they must cut growth, not least because they need to meet capital standards laid down by the Bank for International Settlements by March 1993. "We expanded too fast, especially in international operations," he says. Growth will now be much slower but it will not stop altogether. "We will be reasonable players in the market."

Almost all Japanese banks' ratios of capital to risk assets are now below the BIS's final target of 8 per cent. "Our aim now is to reach [an interim standard of] 7.25 per cent by March 1991. By slowing growth rates all big Japanese banks can clear that."

To make matters worse for Japanese banks, the crunch on capital coincides with a steep increase in interest rates which has squeezed lending margins. "All Japanese banks are suffering," says Mr Kurosawa. Profits for the year which ended in March 1990 were about 30 per cent down. The results for the six months to the end of September, which are due to be announced soon, will show another 30 per cent in the decline, he says.

However, Mr Kurosawa sees limits to how bad things will get. He rejects suggestions that Japanese land prices, which shot up like equities in the late 1980s, are now set to collapse. "I don't foresee a substantial fall of the kind which has happened on the US east coast, where prices went down 30 per cent," he says. Mr Kurosawa thinks prices outside Tokyo could fall, but only by about 10 per cent. In Tokyo the decline will be less because the demand is so strong. Take for example, the building being constructed by the Federation of Japanese Bankers' Associations next door to IBJ's headquarters in central Tokyo. "They have applications from tenants 200-400 per cent in excess of the available space."

PERSONAL FILE

1926 Born in Tokyo.
1950 Graduated from Tokyo University, law department. Joined IBJ.
1961-63 Seconded to Deutsche Bank
1966-71 IBJ's chief representative in Frankfurt.
1975 General manager international department.
1976 Director.
1980 Management programme at Harvard Business School.
1984 Deputy president.
1990 President.

Mr Kurosawa also believes that although the Japanese economy will slow down next year, there is no risk of recession. As so often, the numbers are at his fingertips – gross national product growth will slow from about 5 per cent in the current financial year ending in March 1991 to 3.7-3.8 per cent in 1991-92. The rate of increase in private capital spending will decline steadily in response to higher interest rates – from 16 per cent in the first half of this financial year to 11 per cent in the second and 7 per cent next year. The #recent rise in oil prices will have a marginal effect since oil imports occupy only 10 per cent of the import bill compared with 30-60 per cent in the 1970s.

IBJ stands out from other banks because it is the largest of three long-term credit banks. More than its rival banks, IBJ has deep-rooted contacts with industry and government, which evolved during Japan's post-war reconstruction when credit was short and IBJ played a central role in allocating resources. Conversely, IBJ's links with the retail banking market are poor – it has only 37 branches, against 396 for Dai Ichi Kangyo Bank, the biggest retail bank.

Mr Kurosawa does not see the lack of a branch network as a weakness. With fewer than 5,000 staff, against more than 18,000 for DKB, IBJ has considerably lower operating margins. Moreover, its total consolidated assets are on a par with the big commercial banks – Y45,000bn at the end of March, compared with just under Y60,000bn for DKB.

Mr Kurosawa argues that IBJ's strength is its reputation. "We think not only of the profits of IBJ but also of the profits of our clients." This looks like a thinly-veiled reference to the ambitions of some other Japanese banks, including Sumitomo Bank, the top profit-earner among Japanese banks, which put great emphasis on raising profits. Mr Ichiro Isoda, Sumitomo's chairman, recently resigned following the disclosure of the bank's links with a stock market speculator and of financial difficulties at Itoman, a trading company which borrowed heavily from Sumitomo.

Like other banks, IBJ is preparing for the day banks will win permission to enter securities and trust banking – probably in 1993. IBJ's plan is to transfer to the domestic market the skills it has developed overseas for many years, especially in London, where IBJ International, an investment banking affiliate has been operating since 1975. Mr Kurosawa believes IBJ will be well-placed to exploit the opportunities created by the likely reforms. With a smile, he recalls that before 1948, when the US Occupation authorities separated banking and securities, IBJ lead managed 80 per cent of Japanese corporate issues. "I am not saying we can achieve that again. But maybe we could challenge for the top position."

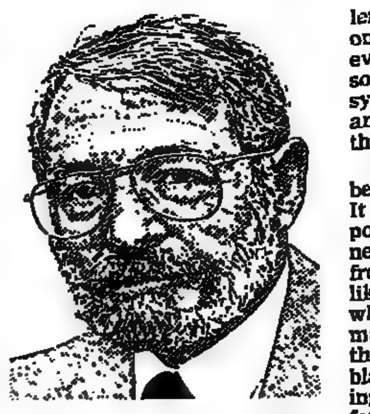
As for foreign markets, Mr Kurosawa acknowledges there are many demands on Japanese credit. Running his slide-rule over eastern Europe, he says Czechoslovakia and Hungary seem to be good risks. IBJ has formed a joint venture with Credit Anstalt of Austria to operate in these countries. But Bulgaria and Romania need first to establish political stability. At the thought of Poland, which has large unpaid debts, Mr Kurosawa purses his lips. "We have had a bad experience with Poland in the past," he says.

However, China, for all its problems, is a fair proposition in Mr Kurosawa's view. "They have debts of $40bn, the same as one year's exports, and reserves of $30bn. That's good. It's not like Brazil or Mexico."

As for the Soviet Union, Mr Kurosawa thinks it is time Japan started talks with Moscow over economic co-operation without waiting for a settlement of the dispute over the Northern Territories, four island seized by the Soviet Union at the end of the Second World War. "The talks on co-operation and on the islands should go together. We should learn from what Germany has done (in securing the recovery of East Germany with promises of aid)."

Dynamics of a deflation psychosis

By Anthony Harris in Washington



THE numbers are not at first sight too forbidding. For the last decade, the US national debt has been growing about 4.5 per cent faster than national income, and private debt about 3.5 per cent faster. Not even compound interest produces a numerical picture of Armageddon: the real burden of national debt is about 1.5 times bigger than in 1980, and of private debt 1.4 times bigger.

Yet this slow erosion has been enough to wipe out America's net assets overseas – though not, on current values, to turn it into what is popularly called "the world's biggest debtor. The significance of that phrase is more psychological than financial: which means, now that a recession is pretty much of an official fact, that it is heavy with meaning. Above all, the rise in debt has produced a new school of gloom. The model-builders are still talking of two or three quarters of negative growth; but financial analysts are now expecting a long, obstinate recession.

Here is Dr Henry Kaufman, the acknowledged leader of this school of thought: "Another business recession is starting," he told the Edison Electric Institute 1990 financial conference last week. "It is dangerous to view the slide merely as a typical cyclical phenomenon." Debt presents "extraordinary financial obstacles" to a rebound. "Considerable time" – which means some years – "will be needed for financial recuperation. No vibrancy can return to the economy without first putting in place a rehabilitated financial system."

This is a view which I have myself been arguing, though not in Dr Kaufman's inimitable prophetic language, so it is only fair to point put that it is still a minority view. It creeps into the footnotes of other forecasts: one analyst points out that a heavy fall in bank shares has in the past been a reliable storm warning, another doubts whether a cut in interest rates – even if it could be achieved when rates are rising in Frankfurt and Tokyo – would do much to turn the economy around.

Still, we have reached a point where a mainstream warning – such as this from the New York office of UBS: "Because there are lags associated with monetary policy stimulus, I think it's a three-quarter recession" – sounds like carefree optimism. It does not echo the psychology of the shell-shocked banking sector, of the two thirds of voters who now think that the economy is in real trouble, or the 40 per cent plurality who believe it will go on getting worse for the next five years.

Voters were as gloomy as this in the days of Jimmy Carter, though they were more robust during the savage 1981-82 recession. They were wrong in the 1970s, but for two reasons they could be right this time: the banking crisis, and the fall in property values. Psychology, as Keynes knew, is more important than numbers: when animal spirits are low, cutting interest rates is "pushing on a string", is perhaps his best-known phrase. But in a credit-based economy, property values are even more important than psychology.

The psychology of voters is based on their own experience – jobs lost, bankrupt stores closing – and common sense. That of bankers is a more morbid subject. In good times they come to believe that risk has been abolished, that sovereign debt is safe, that syndication has abolished liquidity problems, that land values rise not only in the long run, but in every year. In bad times, when sovereign loans are in default, syndication a distant memory, and property values falling, they panic.

It is that panic which lies behind Dr Kaufman's warning. It is cutting off credit from potentially sound small businesses, and cutting off bankers from the safe loans they would like to make to corporations, who can now borrow in the market more cheaply than their bankers can. Wall Street blames Washington, for keeping monetary policy too tight, for demanding enhanced capital at the worst possible time. The timing of the Fed and the Treasury is indeed open to criticism; but the main cause of trouble is their own past folly, and brute reality.

The folly persists. Banks and thrifts, for example, are still eagerly hawking what were known as "negative amortisation" mortgages. These were invented to reduce early-year repayments by adding to the underlying debt for a period of some years; they made a kind of sense when property values and incomes were rising. Their eager use now to try to revive a dead housing market is simply an invitation to default.

Even sensible policies, though, could prove risky in the face of the excessive commercial building of the Reagan era, and of demographics. Major baby booms and busts inevitably produce booms and busts in the asset markets. The old consumer resources, but do not add to them; the capital markets operate to limit their claims. If you want to be rich in retirement, arrange to be born into a baby bust.

The first impact is on the housing market, since household formation is much earlier in the life-cycle. The stock market, you should be warned, is still in a demographic bull phase, and will remain so for another 15 to 20 years. That is one reason why 1990 is not 1929 all over again; the other is deposit insurance. The banking panic is restricting credit, but it is not provoking a run on the banks. An obstinate recession, then: but not the crash of 1990.

The jury system under trial

JUSTINIAN

WHEN the forthcoming Criminal Justice bill is published on November 12 it is unlikely to include any provision altering the mode of criminal trial for serious fraud caes. Informed opinion, following the conviction of the Guiness Four in August, seems much less impelled now towards the recommendation of the Roskill Committee in 1986 that serious fraud cases should be tried by a judge and two lay members appointed from a list assembled and maintained by the Lord Chancellor. Contrariwise, the experience of the Guinness trial tends, in my view, to fortify Roskill's recommendation, although my reasons for preferring trial by a professional tribunal are somewhat different from those of Roskill.

The reasoning in Roskill primarily focused on the complexities of modern fraudulent activities, and the difficulties in criminal justice that they pose for an average juror. Many of those concerned in the administration of justice opine that jurors find that they are out of their depth in the morass of documentary material and intricate financial transactions. First-time jurors, Roskill stated, can find the whole courtroom environment alien and intimidating: "Against this baffling background, the jurors are told that they alone are the judges of whether the defendants are guilty of dishonesty, and even of what constitutes dishonesty in the particular case which is being tried."

The Guinness jury, by all accounts, was assiduous in the performance of its duties and appeared to have grasped the minutiae of the evidence sufficiently to pronounce their verdict of guilt. But then, the issue the jurors had to determine was the single, and relatively uncomplicated, one of dishonesty. That called for an assessment of the overall view of oral testimony, backed or discounted by documentary material. It is almost like projecting one's nose into the arena and smelling fraud, or not as the case may be.

It is, in fact, the virtue of the jury system that jurors are the inscrutable arbiters of guilt and innocence. No one can gainsay their value judgment. It is that traditional virtue of inscrutability, however, that in contemporary society becomes highly questionable.

Accused persons are nowadays not content to be told that they are guilty of crime. They rightly demand to be told why. Twelve good persons and true are incapable of compiling the reasons for their verdict, and sensibly the criminal justice system absolves them from saying why. In contrast, the professional tribunal would be required to give a reasoned judgment that would discourage the hopeless or near-hopeless appeals.

For cases where the verdict was susceptible of challenge, the Court of Appeal would be able to assess the validity of the reasoned judgment rather than having to guess what prompted the jury to its decision. Indeed, the reasonless verdict means that the appellate body is understandably reluctant to say that the jurors were wrong. Much of the current problem of miscarriages of justice is directly traceable to the Court of Appeal's inability to scrutinise the trial court's verdict. The Guinness Four would surely find an adverse verdict at the hands of a professional tribunal much more readily acceptable.

There is also something intellectually dissatisfying in the fact that jurors are discouraged from note-taking during the trial and are positively urged to restrain themselves from asking their own questions. When early in their days of retirement to consider their verdict the Guinness jurors asked the judge if they could be provided with the transcript of a particular piece of evidence, their request was denied, on grounds that were justified under the present system. If they wanted a recapitulation of the evidence, the judge would provide them with a summary. Is this the way a modern system of criminal justice should function?

The Roskill Committee did not allude to the limited function of the appellate system as a reason for the change. It did, however, pray in aid the length of such trials. It said that it did not believe that in a fraud trial of 20 working days, the average juror could retain in his memory all the essential facts and figures upon which the verdict would ultimately depend. Just so. The Guinness jury sat for more than 100 days. The judge's five days of summing-up was not as helpful as the jury was entitled to expect.

During the longueur of the trial, no one knew every jot and tittle of evidence and every piece of paper better than Mr Justice Henry. But the judge's phenomenal grasp of the case over the six months seemed to depart when he came to recite it in a palatable form for the jury. Judges, as well as jurors, can become overwhelmed by the sheer magnitude of the process. The demands of concentrated effort over an extended period can become too burdensome, even for the seasoned professional.

Trial by a professional tribunal would have taken half the time, probably no more than six weeks rather than six months. Repetitious cross-examination is judicially controllable by the tribunal which is both judge and jury. And the reasoned judgment would have demonstrated the grasp (or lack of it) by the tribunal.

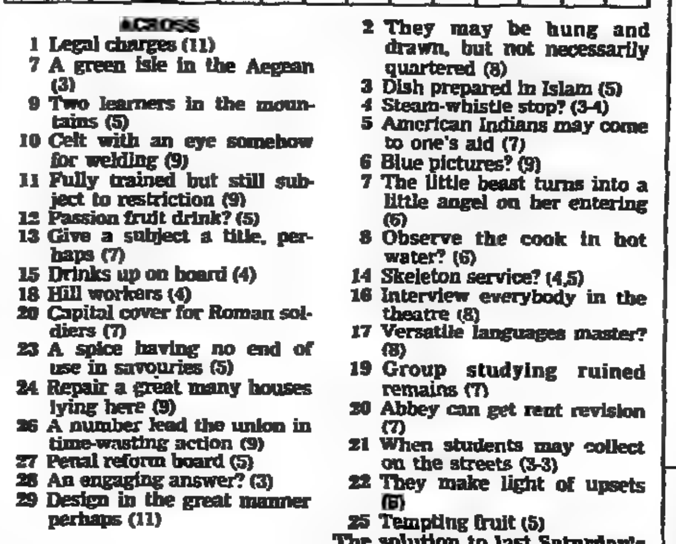
If it is to much for the public to modify the institution of trial by jury, at least the option of a professional tribunal should be available to the accused. The Guinness Four, mindful of the cost of paying huge fees to lawyers, might at least now think that trial by jury would not be their option – if they had had the choice.

Louis Blom-Cooper QC

JOTTER PAD

CROSSWORD

No.7,385 Set by DANTE



ACROSS

1 Legal charges (11)
7 A green isle in the Aegean (3)
9 Two learners in the mountains (5)
10 Celt with an eye somehow for welding (9)
11 Fully trained but still subject to restriction (9)
12 Passion fruit drink? (5)
13 Give a subject a title, perhaps (7)
15 Drinks up on board (4)
18 Hill workers (4)
20 Capital cover for Roman soldiers (7)
23 A spice having no end of use in savouries (5)
24 Repair a great many houses lying here (9)
26 A number lead the union in time-wasting action (9)
27 Penal reform board (5)
28 An engaging answer? (3)
29 Design in the great manner perhaps (11)

DOWN

1 Involved in a quest for relics of a bygone age (8)
2 They may be hung and drawn, but not necessarily quartered (8)
3 Dish prepared in Islam (5)
4 Steam-whistle stop? (3-4)
5 American Indians may come to one's aid (7)
6 Blue pictures? (9)
7 The little beast turns into a little angel on her entering (6)
8 Observe the cook in hot water? (6)
14 Skeleton service? (4,5)
16 Interview everybody in the theatre (8)
17 Versatile languages master? (8)
19 Group studying ruined remains (7)
20 Abbey can get rent revision (7)
21 When students may collect on the streets (3-3)
22 They make light of upsets (6)
25 Tempting fruit (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 17.

FINANCIAL TIMES SURVEY

INTERNATIONAL FUND MANAGEMENT

SECTION III

Monday November 5 1990

As the bankers have lost confidence and lending-power, the investment managers have moved into the gap. But a temporary peak in the expansion of long-term capital flows was probably reached in 1989, writes Barry Riley. Since then the trend has gone into reverse.

UK leads the global race

ABRUPT CHANGES have been taking place in the global financial economy. The immense flows of long-term capital that served to finance the structural imbalances of the late 1980s have begun to flip into reverse in 1990. The trend could well go further.

International fund management has become a much stronger force within the past few years. Whereas in the 1970s it was the power of the international banks that captured the attention, their short-term credit markets came under increasing strain in the 1980s. As the bankers lost their confidence and lending power, the long-term investment institutions moved into the gap.

Deregulation has played an important role. British exchange controls were lifted as far back as 1979, but Japanese constraints were lifted more slowly, especially in response to the weakness of the dollar since 1985. More recently, Swedish investors have been given much more scope to invest abroad.

And elsewhere on the continent of Europe, many large institutions have become restive under the yoke of continuing second-tier exchange controls that restrict their freedom to invest overseas, despite the lifting of primary exchange controls even in the more cautious countries such as France and Italy. As life-insurance and pension rules come in for harmonisation within the European Community, these restrictions may become untenable; already the giant Dutch public-sector pension fund ABP is pressing to obtain greater international flexibility.

In the US, paradoxically, many institutional investors have long enjoyed great freedom, but have been reluctant to take advantage of it. The US has a very large economy with a quite small element of international trade; foreign investments can therefore seem remote and speculative.

Large sums were pulled out of Japan by foreigners as a reaction to the crash in the Tokyo market

Moreover the dollar tends to swing by very large percentages against other major currencies such as the yen and the Deutsche Mark, something which also increases the perceived risks. Only about 4 per cent of US pension-fund assets are invested overseas, on average. Nevertheless the climate has become unusually favourable.

Thus in the first half of 1990 there was a net outflow of long-term capital from the US of $17.7bn, according to the Securities Industry Association. This reflected primarily a surge of $20.9bn of overseas investment by Americans, about $6bn in equities and the rest in bonds. Foreigners invested a net $3.2bn in US securities, but this commitment was but a pale shadow of their enthusiastic level of purchasing a year earlier, when net inflows to the US securities markets amounted to over $30bn (for January-June 1989).

A drooping dollar, down around 10 per cent on a trade-weighted basis in the first 10 months of the year, has both frightened foreigners away from the US markets and tempted Americans to venture overseas, with the prospect of currency gains to enhance their returns. Indeed, the investment flows may themselves have helped to weaken the dollar.

There are echoes in this of the strange pattern in the UK during 1989, when despite the rapid widening of the balance of payments deficit, which climbed from £4bn to £20bn in two years, the capital flows surged in the other direction. British institutions invested £20bn in overseas securities last year, and in the process greatly increased the national requirement for short-term financing.

In 1990, special factors have been dominant. Large sums ($11.7bn in the first quarter alone) have been pulled out of Japan by foreigners as a reaction to the crash in the Tokyo market. But in the second quarter US investors began to move back prematurely, buying a net $1.8bn of Japanese stocks in April-June, after offloading $1.3bn worth in January-March. Nevertheless, the Japanese market continued to tumble until the end of the third quarter.

The same erratic pattern appeared in Germany, where US investors had been enthusiastic in the first quarter, investing a net $900m in German equities, but then turned net sellers in a wave of profit-taking during the next three months.

The year 1989 probably marked a temporary peak of the expansion of long-term capital flows. Some $80bn net flowed into the US bond market from abroad, mostly reflecting huge purchases by Japanese institutions, extending a pattern which had persisted since 1985. But Japanese bond rates have now risen to US levels, while German savings surpluses are now being rapidly mopped up by the internal need to modernise the former East Germany.

The surge of outward investment by British institutions was focused on continental equities: in Germany, for instance, purchases by all foreigners jumped from $3bn to $12bn in 1989.

British pension funds now have about 9 per cent of their assets in continental European equities, compared with only about 4 per cent two years ago. They currently have three times as much exposure to Europe as they do to Japan, which may reflect a *de facto* adjustment to the growing integration of the European economies, including the UK.

Salomon Brothers' annual study of international equity flows, by far the best source of information on an erratically documented and quantified subject, indicates a big surge in net cross-border investment to $92.3bn last year, much greater than ever before. The total was about $30bn in 1986, collapsed to $4bn in 1987 after heavy repatriation of funds in the immediate aftermath the October crash, and then recovered cautiously to $21bn in 1988.

Within the overall total in 1989, there was a clear focus upon diversification into newer or more interesting markets. The dominant equity markets, those of the US and Japan, which have immense capitalisations, were largely neglected. Instead, some $40bn of international money flooded into continental Europe, and large sums were also directed towards other minor markets including those of south east Asia.

It seemed that global fund managers were shaking free of the previous habit of soaking up the big new-issue flows, especially of bonds, coming out of the US in particular. Instead they followed investment themes, of which the European one proved to be the most potent, although the south-east Asian "tiger" concept was popular too.

The opening up of eastern Europe combined with the approach of the European Community's single market at the beginning of 1993 to create an apparently highly attractive long-term proposition. Foreigners accounted for 18 per cent of turnover in continental European equities last year.

Unfortunately the liquidity of the continental bourses was not adequate for the test, and markets such as those of Germany and France first soared last year, then collapsed sharply during the summer of 1990. The surges of funds across borders have offered opportunities for investment strategists to time profitable switches between different national markets, but have not necessarily matched up with underlying investment opportunities.

The performance of the tiny Austrian market, geographically close to eastern Europe, has been striking: although now a long way off its peak, it has outperformed the World Index by over 40 per cent during the past year. In this part of the world the global tail is wagging the local dog.

British institutions, with up to a quarter of their assets overseas in the case of pension funds, remain the globally diversified champions. But fund managers in other countries are following down the same route. Global money is here to stay.

IN THIS SURVEY

Editorial production: Martin Davies

INTERNATIONAL FUND MANAGEMENT 2

THE GULF crisis has temporarily dispelled much of the euphoria surrounding the birth of Europe's single market and the collapse of the Iron Curtain. But it is unlikely to stem the flows of cross-border institutional investment which are already in full spate.

Exchange controls are fast disappearing, following implementation of the Council of Ministers' directive on free capital movements in July this year. Spain has recently said it will almost certainly lift its last restrictions on capital movements early in 1991, two years ahead of its agreed target.

The UK, which has now been without exchange controls for more than a decade, has witnessed a surge in overseas investment by its financial institutions.

Excluding banks, these institutions had £142.8bn invested overseas at the end of 1989, a sharp increase from £95.2bn a year earlier and more than double the 1985 level.

UK pension funds had an estimated 28 per cent of their total assets invested abroad last year, according to consulting actuaries R.Watson. The lion's share of these is in foreign equities, reflecting the UK's traditional bias towards stocks in contrast to the continental preference for bonds.

The Far East and, to a lesser extent, the US account for part of the UK's overseas investment, but Europe was the star attraction in 1989. "Taken as a whole, the economies of Europe are in good shape," says David Damant, managing director of Paribas Asset Management (UK). "A slowdown in growth is unlikely, given the need for reconstruction in the east."

But the UK is not the only source of cross-border fund flows. As Germany's current account surplus again rose last year, its capital outflows remained high. German net investment in foreign securities totalled DM49.8bn ($32.90bn) in 1989, down from DM72.8bn a year earlier but double the level of 1987 and 1986.

The exceptional increase in 1988 followed the announcement of a 10 per cent withholding tax on German government bonds. After the tax was abolished in mid-1989, outward foreign investment slowed and this trend continued into 1990. Investment flows abroad totalled a mere DM17bn in the first half of this year.

Recently, German institutions and private clients have switched their attention abroad again as fears of a Deutsch Mark revaluation recede, given the financial burden of reunification. "Investors are buying foreign bonds in EMS currencies for their higher yield, on the assumption that there will be no EMS realignment," says Ulrich Noetges, economist at Trinkaus and Burkhardt.

Sterling's entry into the exchange rate mechanism of the EMS will not have much immediate impact on institutional investment thinking. For a start, UK fund managers are already heavily exposed to foreign equities and continental stocks in particular. Many are now turning their gaze on the UK market.

A survey of 100 UK institutions, carried out just after the UK joined the ERM in early October, showed an intention to run down cash balances quite sharply.

The managers, responsible for £350bn of assets, indicated a clear preference for UK equities in the survey, which was commissioned through Gallup by the investment house, Smith New Court.

Yet some institutions are already weighing the consequences of ERM entry for corporate profits in the UK. They believe that the government has chosen an unrealistically high level for sterling's entry, which will damage domestic producers through cheaper imports in addition to hurting exporters.

"We believe ERM entry at this level will induce a two-way squeeze on UK corporate profits," says Stewart Gilchrist, a director of Scottish Amicable, which is planning to step up overseas investment, mainly in Japanese and continental equity markets.

He points out that the company presently has a relatively low foreign exposure, of 15 to 18 per cent. The continental view of UK markets has turned to one of caution after sterling's initial surge following ERM entry. Its subsequent weakness has reinforced doubts about the UK's economic performance relative to other EMS members. "German investors feel that Britain's problems, notably its high inflation, are fundamentally different from those of continental economies," says Mr Noetges.

Among pension funds in Europe, the debate over cross-border investment is intensifying. Most realise that, faced with an ageing population by the end of the millenium, they will have to boost returns. Yet several countries still impose legal constraints on investments by public-sector funds, such as a minimum holding of government bonds. In Belgium this minimum is a reasonable 15 per cent. According to the R.Watson estimates, Belgian pension funds had 37 per cent of their assets abroad last year, higher even than UK funds. "Belgium is relatively unregulated," says the firm's Roger Urwin. "Its funds are outward-looking and have few hang-ups about investing abroad."

French institutions are also enjoying their freedom to invest abroad, now that exchange controls have finally been swept away. This broader scope is especially welcome, since the Paris equity market is still comparatively small, at around 3.5 per cent of global capitalisation, even if it did almost double in size in 1989.

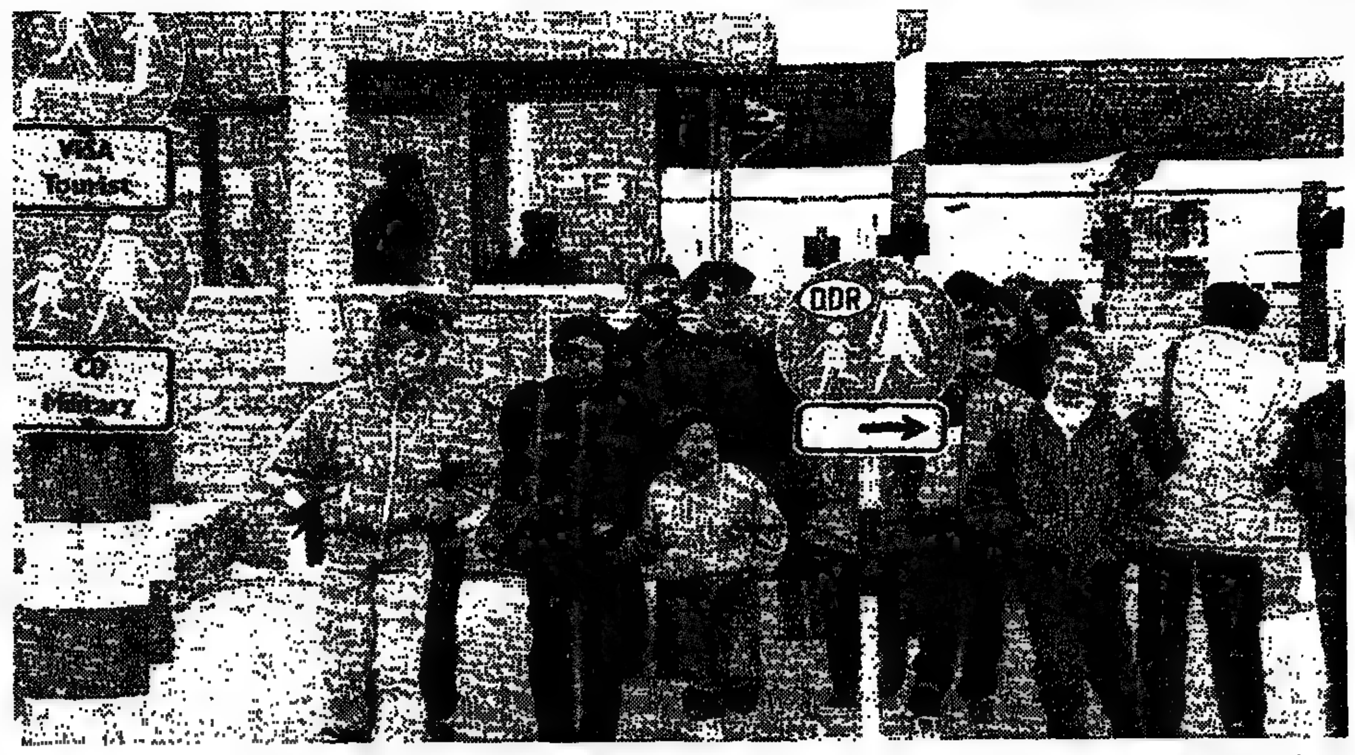
"If you are running a large Paris-based investment fund, you cannot afford not to look abroad," says Mr Damant, at Paribas. Foreign fund managers realise that the reverse is true.

The massive increase in the capitalisation of the Paris market last year was due partly to overseas investors, who nearly tripled their purchases of stocks and bonds.

Now that it is well under way, the movement of investment funds around Europe will be hard to stop. The prolonged period of stability within the EMS has reduced fears of losses through currency realignments, although there is no guarantee that this relative calm will continue.

The question is what form these investments will take. UK managers and consultants believe that the cult of the equity will gradually take hold inside those continental institutions traditionally averse to "risk" investments. The British, on the other hand, may have come close to saturation point with foreign equities and may focus more on continental bond markets.

Nigel Adam



Ashley Ashwood

Cross-border enthusiasm: but German investors are switching attention abroad, in view of the financial cost of reunification

Europe: cross-border activity is in full spate

UK remains loyal to equities

Total equity flows to continental Europe by investor – 1986-89 ($bn)	1986	1987	1988	1989
Portfolio equity flows from:				
US	1.0	0.3	2.3	13.2
Japan	0.2	1.6	0.7	1.9
UK	8.2	2.0	7.1	10.6
Continent	6.9	3.5	3.8	15.4
Rest of World	4.0	1.3	(0.9)	1.0
Total	20.3	8.7	13.0	42.1

Source: Salomon Brothers

Japan

Foreigners advance

LIBERALISATION of fund management in Japan is moving at the typical Japanese pace – steadily but very deliberately.

This year, the Ministry of Finance will let foreign fund managers into the investment business, which had been the exclusive preserve of a handful of domestic companies. And it opened pension management to both foreign and domestic fund managers.

The moves are intended to deflect foreign pressure, as well as shake up two areas where lack of competition had stifled performance.

Until this year, foreign fund managers were only permitted to operate in one area of the domestic trust business – the so-called "tokkin", or specified money in trust. These instruments, primarily for investing in stocks, were used by institutions and corporations for their tax advantages.

But with the decline of the Tokyo Stock Exchange, stock investments have not been attractive, to say the least. The amount of money in tokkin trusts has shrunk by 25 per cent, by various estimates. A fair number of tokkin accounts have been cancelled altogether.

Foreign investment advisers still have their share of tokkin, but the level of activity is far off what it was. All the better, then, that they have other areas to absorb their attentions.

As at April 1 this year, 133 investment advisory firms, including 36 foreign concerns, are allowed to manage private pension funds. Previously, the management had been restricted to trust banks and life insurers.

Japan's Pension Fund Association says that, at the end of the last fiscal year, there was Y22,500bn ($180bn) in corporate pension funds.

The opening is welcomed by both foreign and domestic fund managers, but, as ever, the opening is cautious, with quite a few strings. Only funds that have been in operation for eight years or more may now place a maximum of one-third of new assets with the managers.

By one estimate, this will give the newcomers the chance to manage some Y2,000bn out of a private pension asset base that may grow at Y5,000bn to Y7,000bn annually.

Foreign fund managers expect it will eventually mean a good chunk of business. But no one expects it to come quickly or easily. Given Japan's corporate links, fund sponsors that do steer money away from the group trust bank and the group life insurer are not likely to stray much further than the group fund manager. Foreign trust banks, for example, have been allowed to operate in Japan since 1985, but their share of the total pie is reckoned to be small.

One foreign investment fund manager estimates that as few as 50 to 60 funds are likely to really consider placing money with foreign managers. This is out of 1,456 funds operating at October 1.

Potentially more open to foreign managers than corporate funds are pensions funds set up by various associations, many of them semi-public in nature. Although still subject to the administrative guidance of various ministries, the corporate obligations are fewer, and foreign firms have been given a handful of management contracts.

Even for the contracts that managers do attract, their discretion in handling the money is limited. Every manager, no matter how small a piece of the fund they get, must balance the investment, that is with a designated share in secure investments like Government bonds and strict limits on investments in securities. The fund managers are hoping the next step in liberalisation includes allowing them to seek old money as well as new, and to specialise in one type of investment.

An area that promises success for those lucky enough to get in is securities investment trusts. At present, only 15 firms are allowed to operate in this area, all of them affiliates of major securities firms. Four foreign firms are now inching their laborious way through what has proved to be nearly a year-long approval process. Two expected to get licences by the end of October; the other two were hoping for the end of this month.

To operate investment trusts requires setting up a separate, independent company complete with all the staff needed for the paperwork. The newcomers would have preferred lumping it all together with their other operations. It all makes the cost of entry to this exclusive club high, but potentially that much more rewarding.

Only brokers are allowed to sell shares in investment trusts, so the foreigners have had to establish alliances with domestic brokerages for the retail end of the business. Each fund has a fixed life. And the funds must keep cash reserves, both as a portion of accrued gains and to cover redemptions, as trusts are not allowed to borrow money. It means that, by international standards, the trusts must be high-volume operations. One foreign manager calculates that they need a fund volume of at least Y300bn in three years to come out ahead.

Future liberalisations in Japan are likely to include the entry of another foreign company or two as well as longer-lived funds and the ability to borrow to meet redemptions.

With the preliminaries nearly cleared, the foreign managers are hoping to show Japanese investors better returns from investment trusts than they have been used to. Japanese-run investment trusts and pension funds have been characterised by low-risk, low-return performances. The aim was simply to beat what investors could get in savings accounts.

"Certainly, the returns are disappointing, compared with what you find overseas," says Stephen Barber, of MIM in Tokyo.

Domestic dissatisfaction with trust-fund returns supplemented the foreign pressure that is slowly opening the market. There are some indications that even the gentle shake-up going on is causing the established trust banks and insurers to focus more attention on performance.

For the foreigners, the timing of the entry, especially in the investment-trust business, is definitely mixed, given this year's slide of stocks around the world. On the one hand, small investors are not likely to resume listening to securities salesmen any time soon. On the other hand, had the trusts started a year ago, almost no matter where they invested they would be showing their customers losses. Most fund managers say that, on the whole, they prefer to be coming in at what it is hoped will be the bottom of the market.

Dennis Normile

Japanese financial institutions: holdings of foreign securities as a percentage of total assets and total securities (Y000bn)	1989	1980
Year-end		
Life insurance companies		
Total assets	15.5%[1]	2.7%
Total securities	33.9[1]	9.0
Securities value	Y16.9[1]	Y0.7
Trust accounts of banks		
Total assets	7.7%	0.5%
Total securities	17.0	2.2
Securities value	Y10.3	Y0.2
Securities investment trusts		
Total assets	8.5%	2.1%
Securities value	Y4.8	Y0.1
Banking accounts of banks		
Total assets	2.2%	0.4%
Total securities	11.9	2.0
Securities value	Y15.2	Y1.1

1 As of the end of November 1989

Source: Salomon Brothers

Long-term capital flows Japan ($m)	1989
Into:	
Bonds	2,400
Equities	6,996
M&A	0
Other direct	(1,192)
Total	8,316
From:	
Bonds	94,083
Equities	17,887
M&A	10,397
Other direct	33,389
Total	155,756

Source: Salomon Brothers

The US: many portfolios are still dominated by domestic assets

Global attitudes progress slowly

GLOBALISATION is a term that has haunted most areas of the US securities industry for years, and fund management is no exception.

Yet – as with investment banking, for example – there is a large gulf between the idea and the reality.

In theory, in today's marketplace, investment managers should be well-able to hold geographically diversified portfolios, and consequently avoid the roller-coaster ride that heavy dependance on one economy can deliver.

It is true that some progress has been made in this direction in recent years, but it is painfully slow. Many portfolios are still dominated by domestic assets, and hence highly vulnerable to sharp value adjustments. Recent concern over the quality of some US insurance companies' investment portfolios, particularly in the light of plunging US real-estate values, would be a good example of the dangers which domestic concentration presents.

International investing appeared to be picking up in the late-1980s as a significant number of pension funds started to make forays into the international markets.

In 1988, for example, some $2.85bn was invested internationally by more than a dozen of the nation's 200 largest pension funds. These included a number of large public funds, like the Public Employees Retirement Association of Colorado, Los Angeles County Employees' Retirement System and New York State Teachers' Retirement System.

Yet, today, out of the $2,000bn of investments controlled by US pension funds, only about 4 per cent is invested outside the US – a significantly lower proportion than in other countries.

That said, many observers and players in the fund-management industry do expect the trend towards greater overseas weightings to continue.

The point was made forcefully earlier this month by Mr George Turnball, head of Cigna Investments, part of the large US insurance company. He predicted that there would be a substantial increase in international investment instruments throughout the 1990s – a theme which many others echo.

Interestingly, Mr Turnball pointed particularly to foreign real-estate opportunities, suggesting that most foreign commercial real-estate projects were still largely "demand-driven" – in contrast to the US situation, where capital and tax-motivated schemes have resulted in substantial overbuilding, particularly in the current recessionary conditions.

"On a risk-adjusted basis, real-estate ventures may now be more attractive in some overseas countries that in the US," suggested Cigna.

Other developments also run through the fund-management industry at present. One is the trend towards private investments. This partly reflects the declining supply of publicly-traded securities, as companies have retired equity.

It is also, perhaps, a mirror of what has been happening on the corporate-finance front, in the wake of the collapse in the junk-bond bond market and the volatile conditions in the public marketplace. Private placements have been growing significantly – although even this market was depressed in the first half of 1990 – and leveraged buy-outs in particular have depended to a much greater extent on "private funding", rather than a public offering of securities.

Another trend also reflects the relatively bearish world of the 1990s: increasingly, mainstream fund managers are looking for investment opportunities amid the growing supply of troubled companies and bankruptcies. Because of the high levels of debt taken on by many US companies in the late-1980and the strength of the leveraged buy-out movement generally, there is unlikely to be any shortage of "basket cases", and subsequent refinancings.

So-called "vulture funds" are not a new development, but in the past they have depended fairly heavily on private-investor interest. More recently, however, the more conventional pension-fund investors have moved into this area – including, for example, the General Motors pension fund, International Paper pension fund, and the Warner-Lambert fund.

The advantages of this type of investment are fairly obvious: high returns, if all goes well. Clearly, the risk is that restructurings can be lengthy and ultimately unsuccessful. Even so, fund managers are working on the assumption – very broadly – that such funds should throw up annual returns of around 20 per cent. And that, in today's markets, is an attractive figure.

In terms of size, the rankings of the top US money managers showed relatively little change last year, according to the Institutional Investor league-table. The Prudential Insurance Company and American Express remained in the first two slots, although the gap between the two narrowed, with Metropolitan Life, Bankers Trust and Equitable Investment Corporation falling into the next three places.

In general, the 1989 rankings tended to favour those managers who held large portions of their portfolios in equities, and to penalise those with heavy real estate investments.

The story this year may be rather more interesting. The real-estate picture has arguably become even bleaker, while there is little joy to be had on the domestic equity front either. The lure of overseas holdings can only increase.

Nikki Tait

The largest global pension fund managers ($m)

Rank 1989	Manager	1989
1	State Street Bank[1]	7,388
2	Baring International	3,606
3	Capital Guardian Trust	3,600
4	Rowe Price-Fleming International	3,051
5	JP Morgan Investment Management	2,917
6	Schroder Capital	2,780
7	Morgan Grenfell	2,462
8	Wells Fargo Nikko[1]	2,362
9	Grantham Mayo Van Otterloo	2,360
10	Brinson Partners	2,157
11	Nomura Capital Management	2,144
12	Morgan Stanley Asset Management	1,815
13	Oechsle International Advisors	1,788
14	Bankers Trust Investment	1,538
15	Batterymarch Financial Management	1,476
16	Chase Investors	1,415
17	Worldinvest	1,225
18	General Electric Investment Management	1,089
19	Alliance Capital	1,048
20	Boston International	1,032

1 Managers of passive funds

Source: Interaec Research

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Global managers

Three perspectives

THEY COME in all shapes and sizes, but they all claim to be global managers. Just how effective and credible are the different approaches?

By way of illustration, take three British fund management businesses. At the one extreme there is Robert Fleming, a long-established group which has associates or operations in Japan, the US, Canada, France, Hong Kong and other places, and looks after funds totalling some £30bn.

In the middle ground comes Martin Currie, an Edinburgh-based operation which has had considerable success in expanding out of investment trusts into the pension fund market in the past 10 years. Looking after about £2.6bn in total, Martin Currie's 24 investment professionals all operate out of its Charlotte Square headquarters.

Finally, one of the UK's few genuine global boutiques, Marathon Asset Management has just three fund managers, operating out of a modest suite of offices overlooking Cambridge Circus in London.

To take Fleming first, it is an example of a global network. Although there are some gaps – it does little domestic business in the US, for instance, which it regards as a mature market – it has followed a strategy of establishing a strong presence in each of the main markets it serves. Typically, it has established partnerships to facilitate this – with Jardine Matheson in the Far East and with T.Rowe Price in the US market for global Erisa mandates, for example.

Andrew Duncan, who heads the investment management consultancy team at Price Waterhouse in London, points out the choices faced by the global managers. "They may have to decide whether to be oriented towards where the investors are or where the assets are," he comments.

In fact, the managers with the biggest global ambitions are motivated to set up marketing offices in the major countries, and it may seem sensible to site investment teams in the same premises, but the management of such a matrix can be tricky.

Fleming, however, has managed to cope with such tensions relatively successfully. It has 60 fund managers in the London institutional business alone, and the new chief executive of fund management, Iain Saunders, says that the team is now working more effectively after division into units of five to 10 people each.

But whatever the problems of managing a big global business like Fleming, it has the clear advantages of broad spread and depth of resources. "We've always had a very strong commitment to our own research," says Mr Saunders.

At Martin Currie, in contrast, the advantages of compact size and a single location are still seen as decisive. "We debate it regularly," admits Michael Kennedy, the joint managing director, "but being a relatively small firm, we want our whole international investment team in one place."

Central to the company's success, he says, is the weekly strategy meeting, which takes place between 8.30 and 10.00 each Friday, and includes presentations by the four separate geographical teams, covering the UK, Europe, the Far East and North America.

The view at Martin Currie is that this centralisation not only helps build a consistent approach, but avoids the danger that local offices around the world would cling on to their own pots of money regardless of the periodical changes in the investment arguments.

But Mr Kennedy accepts that sitting in Charlotte Square would not be enough. "To make up for the lack of physical presence, we must travel frequently, and far and wide," he says. In all, the team of 24 investment professionals visits 1,000 companies every year around the globe.

It was the growing acceptability to UK pension funds of specialist managers such as Martin Currie, with its aggressive global equity style, that led to its rapid growth during the second half of the 1980s.

Even so, British pension funds are not yet ready to accept tiny boutiques like four-year-old Marathon, which apart from a small British investment trust, mostly gets its mandates – totalling $300m – from North America.

Why would anybody place global money with a three-man team? Marathon expects to receive only a small proportion of a much bigger fund. It then promises a distinctive investment style to its clients, one which will add diversification to their overall performance. Furthermore it operates on the basis of performance-related fees.

Even so, its claims would not be sustainable without the support of the highly developed international securities industry in London. Generally, small fund management firms depend heavily on brokers for research and other forms of back-up, and it is therefore the boutiques which probably have the most to fear from the financial problems the brokers are now encountering.

Martin Currie depends less on London research, but quite significantly on the proximity of London as a major dealing centre in its time zone. "If nobody was dealing in London in Japanese securities we might have to change our system. We might have to bring in a night shift," says Michael Kennedy.

At Robert Fleming, Iain Saunders, too, is more worried about its ability to deal. "We could afford to spend more on our own research," he says, "but we couldn't afford to create our own liquidity." But Fleming deals all over the world, wherever the markets are.

Will the giants like Fleming manage to make size count conclusively in their favour? Andrew Duncan says that the evidence of a recent Price Waterhouse survey is that ability to take advantage of economies of scale relates more to individual fund size than to the aggregate of funds under management.

"The amount of money under management isn't the only criterion," he suggests. "You can over-expand your product range. The more products you try to service the higher your cost base is going to be."

Even for global investment, therefore, which is the most ambitious form of fund management, it could be that the smaller operators will continue to have a chance of competing successfully against the international giants.

Barry Riley

SUMMARY NET EQUITY FLOWS, 1986-89 ($bn)

	1986	1987	1988	1989	Fourth quarter 1987	Net flows as a percentage of turnover 1988	Net flows as a percentage of turnover 1989
Investor from:							
US	2.4	(1.1)	(0.6)	20.9	(3.7)	0.02%	0.65%
Japan	7.1	16.9	3.0	17.9	3.3	0.06	0.34
UK	9.5	(0.3)	7.2	29.8	(11.2)	1.24	1.69
Continental Europe	12.0	5.8	8.1	16.4	(7.2)	0.56	0.85
Rest of World	0.8	(18.3)	3.4	7.4	(12.0)	0 69	1.05
Total	31.7	4.0	21.1	92.3	(30.8)	0.21	0.79

	1986	1987	1988	1989	Fourth quarter 1987	Net flows as a percentage of market capitalisation 1988	Net flows as a percentage of market capitalisation 1989
Market to:							
US	18.7	16.2	(1.8)	11.5	(7.2)	0.07%	0.38%
Japan	(15.8)	(42.8)	6.8	7.0	(21.5)	0.18	0.16
UK	4.3	10.0	4.3	3.1	(0.4)	0.60	0.36
Continental Europe	20.3	8.7	13.0	42.1	(6.0)	1.11	2.81
Rest of World	4.1	11.9	(1.2)	28.6	2.7	0.21	2.57
Japanese warrants	1.3	2.3	3.0	7.2	0.2	NA	NA
Total	31.7	4.0	21.1	92.3	(30.8)	0.22	0.86

Source: Salomon Brothers

Equities: in the shadow of a bear market, risk is increasing

Brokers foresee a subdued year

"WE ARE past the days of an easy 20 per cent return from equities," says one senior international fund manager.

This blunt assertion is pretty much in the minds of most global investors, especially those who have suffered a collapse in their share portfolios since the Gulf crisis sent stockmarkets skidding at the start of August.

The spectre of an economically-backed bear market now hangs over most stockmarkets around the world, and inevitably the risks involved in equity investment are increasing.

The current environment of high interest rates and slowing economic activity in leading industrial nations will make it *difficult for equities to offer* the kind of return which investors grew accustomed to in the bull years of the 1980s. Below-average economic growth will take its toll on profit margins, and, to make matters worse, the best years are coming to an end for many cyclical sectors. The chemical, car and steel sectors are widely judged to be the most vulnerable.

Until the monetary authorities of the world's largest economies feel that inflation is no longer a threat and can ease interest rates, equity markets are likely to yield less than bonds and cash. Many brokers expect this scenario to last for at least the next six to 12 months.

An increasing shortage in *worldwide savings is expected* to keep interest rates high, as Germany vies with the US and Japan for international funds to finance the rebuilding of east Germany. Mr Bryan Allworthy, quantitative analyst at Barclays de Zoete Wedd, forecasts a total rate of return (TRR) for German bonds of 11.3 per cent over the 12 months to August 1991, compared with a TRR for German equities of only 8.7 per cent.

Today's electronic trading systems allow markets to react to bad news more swiftly

On a longer-term view, there is a growing consensus among stockmarket analysts and fund managers that equities are now for the most part on a bear trend, the Gulf crisis having acted as a catalyst.

Whereas, in the past, a bear market has been *defined as a* gradual erosion of prices and shrinking volume over several years, today's electronic trading systems allow markets to react to bad news far more swiftly. The result is a sharp correction in share prices in a matter or hours or days, followed by an almost immediate *drop in volume and a long* period of chronic underperformance.

"You can no longer expect a sudden collapse in prices to signal a buying opportunity," says Mr Adrian Phillips, head of European research at Kleinwort Benson Securities.

Such pessimistic views are encouraging many investors to move away from shares to either fixed-income instruments or cash. Two global crashes in the past three years and the current malaise in stockmarkets as a result of the Gulf crisis have shown how quickly international funds can be repatriated from stockmarkets overseas.

Emerging Asian markets are the most likely to be the victims of any further repatriation, especially those markets where global investors felt they had to have a presence rather than truly believing in their potential.

Some fund managers are *estimated currently to have a* cash weighting around 20 per cent above normal, and their equity allocation has been halved to around 30-40 per cent of total funds. Analysts point out, however, that many investment portfolios had been grossly overweight in equities during the bull market of the *1980s, so that the balance* between equities and bonds is being redressed to a certain extent. Ms Lisa Hosking, asset allocation adviser at S.G.Warburg Securities, notes that over

Two global crashes have helped show how quickly funds can be repatriated

80 per cent of UK pension funds have 55 per cent or more of their total portfolio in domestic equities.

The fallout in Japan, which has dropped 35.3 per cent since the start of the year, has unsettled many international fund managers, since the points of reference by which they used to make their stock valuations have been wiped out. For example, the bond-equity yield relationship, which showed Japanese equities to be cheap in relation to bonds in 1986, is no longer viable as it now shows the opposite. Data from Salomon Brothers estimate that international performance funds and the funds of US pension companies have their lowest equity weighting in Japan since 1984.

A saving grace for equities, however, is the fact that *long-term international capital* flows are likely to continue to grow, having swollen to massive proportions over the past decade. According to a report by Salomon on international equity flows, cross-border portfolio investment in equity markets reached a record in 1989, when $92.3bn was invested into international equities.

Growing institutional investment, especially by pension funds, and the desire to diversify portfolios geographically, leads the author of the report, Mr Michael Howell, to forecast that foreign equity ownership will double over the next 10 years from the current $830bn, or 8 per cent of world equity market capitalisation.

The UK owns the largest proportion – one quarter of the total – and this trend is likely to continue. Mr Malcolm Baker, associate director Europe/International at Allied Dunbar Asset Management, believes that European stockmarkets will become an extension of the UK equity market, for investment purposes, now that Britain has entered the Exchange rate mechanism of the European Monetary System.

Given that stockmarkets are more likely to fall than rise in the next six months, the quality of earnings and asset back*ing will be of even greater* importance when it comes to stock selection. The chance of disappointing results will be a major risk, especially for European stocks which do not

Many see Europe, especially Spain and Portugal, as having most potential

anticipate bad numbers but instead underperform the market drastically for several months afterwards.

European stockmarkets, especially Spain and Portugal which have been neglected over the last 12 months, are still seen by many as having the most potential. Economic prospects for the continent are far rosier than for Anglo-Saxon or Asian economies, and many of the larger European companies have used the last bull market to strengthen their balance sheets with fresh equity. "Europe has lost some of its sex appeal, but you can still find value," says one analyst.

Antonia Sharpe

Bonds: many have preferred the French market to the German, in a year that has also seen...

A shift towards short-dated maturities

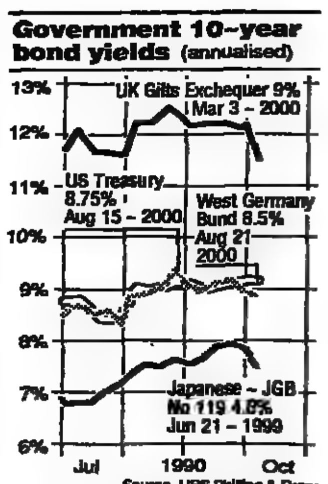
INTENSE market volatility has obliged managers of international bond funds to pick their investments carefully this year. Most have adopted a cautious stance, which will see them accepting lower returns on funds than they had hoped for at the beginning of the year.

Most institutional bond funds are tracked against Salomon Brothers' world index of fixed-income markets, and most aim to beat the index's performance by several percentage points. As the risks rise in uncertain bond markets, performance of funds inevitably suffers.

One of the most significant shifts that has occurred in the world fixed-income market this year has been into investments with short-dated maturities. This is a trend that characterises any period of market turbulence, and reflects investors' long-term concern over the world economy and the outlook for inflation.

"The best thing to do this year would have been to hold cash," explains Mr Peter Zoll, managing director at SBC Portfolio Managers International, an arm of Swiss Bank Corporation. "Right now, there is a tremendous uncertainty premium built into bonds, but at some point interest rates will come down and there will be an enormous capital appreciation – we've got to be there for that."

Government 10-year bond yields (annualised)



Source: UBS Phillips & Drew

Fund managers see bond markets as particularly high-risk at the moment, since the tension in the Gulf and the rising oil price have heightened the prospects of world inflation; and the effect of a war in the region is virtually unquantifiable.

At the same time, the state of flux in the Euromarket has seen liquidity drying up in all but the highest-quality credits; and even for these, yield spreads over government bonds have widened. This has narrowed the choice of Euro-issues which many fund managers will include in their portfolios.

Government bonds are usually built into a portfolio for institutional clients such as central banks and other large investors. Many of these investors want the currency risk in their portfolios hedged out altogether, which leaves the manager to base the portfolio in one currency such as the dollar.

But in other cases, managers will hedge currency risk to achieve exposure to high-yielding currencies, and in this way enhance returns.

Eurobonds and money-market investments such as commercial paper are included in portfolios with more of a retail slant, where investors are keen to pick up yield. However, managers are being more careful about yield pick-up now, since liquidity becomes more important if they want to rebase a portfolio quickly.

This philosophy leaves bond-fund managers concentrating on buying bonds from borrowers with a triple-A rating – usually sovereign credits – with some corporate issues that are rated double-A. The managers are making the trade-off between liquidity and yield.

In the government-bond sector, the focus is on solid markets without a foray into the exotic sectors that may have been tried in more stable times.

Mr Gordon Johns, managing director at Kemper Investment Management, explains that he is currently keeping asset distribution of his £300m bond funds pretty close to the split in the benchmark Salomon index, as part of a conservative strategy. In the past, he has taken positions quite different from the index, and has previously found interest in markets as diverse as the Irish, Norwegian, Swedish and New Zealand bond markets.

Fund managers see bond markets as particularly high-risk. Tension in the Gulf and the rising oil price have heightened the prospects of world inflation, and the effect of a war in the region is unquantifiable

Mr Johns describes a typical institutional portfolio, currently comprising 40 per cent US Treasury or dollar bonds and 20 per cent Japanese government bonds. Added to this, he will have 15 per cent each in French and Canadian bonds with 10 per cent in the Dutch market.

The portfolio does not contain any UK bonds, and Mr Johns believes that, other than the short end of the market, gilts currently do not provide good value, although he is interested in having an exposure to sterling.

Bond-fund managers will typically hedge part or all of a fund's currency exposure, in a bid to minimise risk and maximise returns by achieving an exposure to a high-yielding currency. For instance, the currency exposure on Mr Johns' institutional fund would include a 45 per cent exposure to the dollar, and 5 per cent each to the pound and the peseta. He will hedge out all of the Dutch gilder, most of the French franc and Canadian dollar exposure, but will maintain a 20 per cent exposure to the Deutsche Mark.

Many fund managers have virtually shunned the German bond market this year, as uncertainty over the financial costs of German unification has taken hold. While many managers will have minimal Bund holdings, they will still maintain an exposure to the D-Mark as the linchpin currency in Europe.

German bond yields have risen substantially this year as prices have fallen. The average yield of German government paper has now been over 9 per cent for several months. In the past, this was the point at which retail buying would soak up supply and push prices back up again; however, this year it has failed to materialise.

In addition, the government has a hefty funding schedule to complete before the end of the year, in order to provide funding for the industrial regeneration of the former East Germany. Most international investors believe interest rates will have to rise soon in Germany, to cope with the inflationary pressures of unification, and for this reason, have kept a low profile in the Bund market.

The market that has appeared to benefit most from foreign investors' disaffection with Germany is the French market, which was buoyed significantly by overseas buying before the Gulf crisis. It then suffered a heavy sell-off, but fund managers remain keen to hold some French 10-year bonds.

The UK's recent entry into the ERM has provided a more stable base for UK-based investors to buy European bonds, since their currency hedging costs will be cheaper, given sterling's relatively stable exchange rate

After drifting to below 100 basis points, the spread between the French and German markets widened to around 165 basis points in the weeks immediately after Iraq's invasion of Kuwait. This provided an opportunity for investors to buy French issues cheaply, and the markets have been brought more into line with one another in recent weeks.

In addition, the UK's recent entry into the Exchange Rate Mechanism of the European Monetary System has provided a more stable base for UK-based investors to buy European bonds, since their currency hedging costs will be cheaper, given sterling's relatively stable exchange rate.

Mr Zoll explains how his fund managers have become more active in derivatives, as a way to change the profile of a portfolio rapidly in response to developments such as the UK's ERM entry. After that announcement, he wrote options to sell gilts, and bought options to buy French Obligations Assimilables du Trésor (OATs) – 10-year government bonds – and restructured the underlying portfolio later.

While bond markets remain uncertain, this is a strategy that many more managers will be adopting as quick-fire decisions could mean a difference of several percentage points in a fund's return.

Deborah Hargreaves

Derivatives are becoming more attractive, as they move...

Out from the shadows

DERIVATIVE instruments have moved out of the shadow of their large cash parents this year, as more fund managers have turned their attention to the risk-protection and enhanced returns they can offer as part of a well-monitored portfolio.

A number of developments in the UK have prompted institutions to look more carefully at the derivatives sector.

First, in this year's budget, Mr John Major, the chancellor, cleared the way for pension funds and unit trusts to use the instruments, by clarifying the tax position on trading income from derivatives.

Up till then, unit-trust managers had been wary of using derivatives, for fear of jeopardising the tax-free status of their entire fund. Now managers have been assured that they will pay no capital gains tax on income received from trading futures and options.

The budget changes went hand-in-hand with a proposal from the UK Department of Trade and Industry on a set of new regulations, which will allow the creation of futures and options funds. Although the passage of the rules into law has been delayed, the funds will open up a potentially huge sector of income for traditional unit trusts and insurance companies, and will inevitably boost the use of derivatives. The international market for futures funds is worth $8bn.

Other industry changes that have increased fund managers' awareness of futures and options include the agreed merger between the London International Financial Futures Exchange and the London Traded Options Market, which will provide a more cohesive marketplace for derivatives.

Internationally-minded fund managers can often find a local futures market more liquid than a country's stock exchange

At the same time, the development of new exchanges and products overseas has caught the attention of the internationally-minded fund manager, who can often find a local futures market more liquid than that country's stock exchange.

Mr Trevor Pullen, director of Prudential Portfolio Managers, reflects this view when he explains that, for him, derivatives are important in enabling his funds to "pre-invest" cash quickly in a market.

"If we know, for example, one of our major life funds has a couple of hundred million coming in later in the year and we believe the market will go up, we will buy futures contracts and roll them over until the money arrives. At this point we can sell the futures and buy stocks." This way, Mr Pullen gains exposure to a rising market by paying a small upfront price. The profit he has made on futures will augment the returns on his stock portfolio.

Prudential has some £35bn under management of which, about half is available to Mr Pullen for use in the derivatives markets. Since the company is involved in all of the world's major stockmarkets, Prudential has looked at using most futures markets. But the company has concentrated on stock index contracts in the UK, US and Japan.

Derivatives are a method well-suited for institutions to gain quick exposure to a market, because it is much cheaper to use them than to execute the transactions in the underlying stocks, and transactions can be completed more rapidly than in the underlying stockmarket.

Mr Pullen estimates that to use futures costs him a fraction of the price of buying stocks. Futures commission fees are less than 0.1 per cent of the overall cost of the trade, while stock commissions can be 0.2 per cent which is made more expensive by the 1 per cent spread that exists between purchase and sale prices of stocks.

Indeed, many fund managers will use derivatives to gain exposure to a market without disturbing an underlying portfolio which has been painstakingly put in place by careful stock selection. By using futures, a manager can take a view on the general direction a market is likely to take, without having to go to the trouble of selling stocks.

As stockmarkets around the world have seen an influx of international investment in the last decade, futures exchanges have sprung up to provide hedging vehicles. Among the new derivatives products most widely used by international investors are the futures contracts on Japanese stock indices that trade in Tokyo and Osaka. These have given fund managers the opportunity to hedge and take a view on the huge and – this year – wildly volatile Tokyo stockmarket.

The success of derivatives in Japan has given rise to a rush of "copycat" products around the world, which have enjoyed growing use as Japanese authorities have placed a complex set of restrictions on their own derivatives.

At Prudential, Mr Chris Stiasny says he is very interested in trading the Nikkei 225 futures-and-options contracts which have been recently launched by the Chicago Mercantile Exchange. For a large market user, it is extremely convenient to find two major stock indices trading side by side, so Mr Stiasny can play the spread between the Nikkei and the Standard & Poor's 500 index in the same place.

A burgeoning OTC market in tailored derivatives has developed in the US and, to a lesser extent, in the UK

For smaller market users, exchange-traded futures and options are not always the easiest products to use, since they come in large sizes. For this reason, a burgeoning over-the-counter market in tailored derivatives has developed in the US and, to a lesser extent, in the UK.

Mr Bernard Wagenmann, manager at the fund-management arm of the Industrial Bank of Japan, who has $1.2bn under management, says he does most of his derivatives business over the counter. His priority in using derivatives is to protect his portfolios from the risk of a downturn in the market, which he can do with equity options.

Derivatives can offer a variety of hedging strategies and possibilities for enhancing return on a portfolio, and although they are now more widely used by fund managers, there are still some major institutions that shy away from the market because of its high-risk reputation. But as more managers turn to derivatives to make a higher return, others who are judged against these will find they cannot afford to ignore derivatives altogether.

Deborah Hargreaves

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Global custody

G30 hastens electronic advancement

DURING THE 1980s portfolio managers discovered that it could be much easier to invest funds in foreign markets than to retrieve them.

According to Salomon Brothers, the gross value of cross-border equity investment grew at a compound rate of 38 per cent a year between 1979 and 1987.

Archaic settlement systems were already buckling beneath the weight of funds when the crash intervened, prompting a rush to sell. Several settlement systems effectively collapsed, and it proved impossible to extricate all of the money invested. Unsurprisingly, cross-border investment slumped by a tenth in the year which followed the crash, and did not recover until well into last year. Investment, it seemed, had globalised too soon for existing institutional structures to cope.

The settlements débâcle of the late 1980s alerted bankers to the inadequacies of the infrastructure for global investment

The settlements débâcle of the late 1980s alerted bankers for the first time to the inadequacies of the infrastructure for international investment. Progress since is striking. The two most notorious blackspots, Spain and Italy, have both installed impressive central depositories which transfer securities electronically by book entry transfer. After years of delay, London's paperless settlements system will enter trials next October.

Much of the impetus came from the Group of Thirty (G30), a private body chaired by former the Bank of England Governor, Gordon Richardson. Its nine recommendations, published in March 1989, aim to establish central depositories, delivery against payment, standardised securities numbering and settlement within three days of trade date in every market by the end of 1992.

The G30 report galvanised a number of other private organisations, which are now pursuing various initiatives designed to speed up the reforms and standardise communications. The international banking payments organisation, the Society for Worldwide Interbank Financial Telecommunications (Swift), is encouraging a recalcitrant membership to admit securities firms and investment managers to its payments and communications network, but worries about the creditworthiness of some securities houses and the fear of overloading the system mean progress is slow.

Reuters, GE Information Systems and Fitel are offering rival commercial networks to link brokers, fund managers and custodian banks around the world. A grouping of custodian bankers, the International Society of Securities Administrators (ISSA), and the Swiss-based International Organisation for Standardisation (IOS) are also working to improve communications and standardise electronic messaging between markets.

Custodian bankers view none of these developments with equanimity. For years, they have earned handsome fees from ironing out the inefficiencies of the world's securities markets. Now they fear that their historic functions – essentially, storing securities and settling trades – will pass instead to the central depository in each market, or to commercial utilities like Euroclear and Cedel. Profit margins are expected to shrink as paperless trading cuts transaction costs.

The considerable sums they have invested in proprietary communications and reporting systems are threatened by central depositories and the gradual standardisation of communications. Some custodians are concerned that, once the G30 recommendations are implemented in each market, their clients will drop them in favour of direct electronic links of their own with a network of national and international depositories.

The threat of disintermediation has forced custodian bankers to redefine themselves. Most now see their future not in settling trades but in turning reams of raw financial data into useful investment information. Expenditure on information technology has increased vastly, in the expectation that automation will eliminate risk and pare settlement costs. In this way, custodians hope to undercut rivals on the price of a basic service, but retain sufficient volume to earn generous fees on value-added products like cash and foreign exchange management, securities lending, real-time portfolio valuations and advice on local tax and regulatory regimes.

Instead of selling a settlement service, they will become information processors and manipulators. Some visionaries even argue that, in the 1990s, securities administration, like the rest of the banking industry, will be transformed by Electronic Data Interchange (ED). Pension contributions and insurance premiums, for example, might be debited from bank accounts, invested in the markets and reported to the client without human intervention at any stage.

This magniloquent vision tickles investors, who are weary of extravagant but unfulfilled claims from custodians about the capabilities of their systems and the quality of their service. Industry surveys repeatedly suggest continuing dissatisfaction among investors over such mundane matters as settlement efficiency, tax reclamation, income collection and portfolio reports. Though the marketing drive of the last few years has undeniably tempted many investors to consider changing custodian for the first time, the frequent disappointment of high expectations has fuelled a natural scepticism.

The questionnaires submitted to potential custodians continue to emphasise the mundane over the futuristic. Securities lending, frequently cited by custodians as an example of the imaginative services they can offer investors, is in reality used more often to avert a failed trade than to cover a short position. In private, leading custodians concede that the quality of their technology is roughly equivalent, and that the basic service leaves much to be desired.

This makes it much more likely that custodians will pass the next decade refining and improving the services they already offer, rather than fundamentally reshaping the business to accommodate the latest thinking in information technology.

Several factors are reinforcing the demand for a better basic service ahead of other considerations. One is the uneven pace at which the reform of settlement institutions and communications networks is proceeding around the world as vested interests – not least, those of the custodian banks with proprietary systems to protect – defend their markets. A G30 progress report earlier this year warned that "in a number of countries, the hard work of actual implementation, involving difficult decisions, still lies ahead."

Another element is the expected increase in the volume of business custodians will be expected to handle. Salomon Brothers expects cross-border equity holdings to in the next decade or so to double, or even triple, from last year's record level of $880bn, creating a market of between $2,000bn and $3,000bn rich in opportunities for error and inefficiency.

Quantitative techniques will multiply hugely the potential costs of failing to deliver stock or make payment

Yet the most important influences will be those currently shaping the global investment management industry in general. Quantitative techniques, with their concomitant surges of trading activity and need for immediate reinvestment, will multiply hugely the potential costs to custodians of failing to deliver stock or make payment.

The broadening of investment horizons, to encompass arcane and emerging markets which may not have central depositories and book-entry transfer for decades to come, will also reimmerse custodians in the basic elements of their business.

Finally, the slow disaggregation of the European investment management industry will lead to a proliferation of specialist fund managers and the increased use of external expertise. This will increase the pressure to sub-contract the settlement function, and heighten interest in master custodians to collate the investment data provided by several different fund managers. In the US, nine tenths of pension funds already employ external fund managers. If the pattern is repeated in Europe, the traditional virtues – a working partnership with the client, a long term commitment to the business, helpful and experienced staff and timely reporting and problem solving – will count for far more than a portfolio of fancy services and an ephemeral technological edge.

Dominic Hobson
European Editor,
Global Custodian Magazine

Manager selection: intermediaries have a rising influence, and...

League tables still count as benchmarks harden

THE role of investment consultants in the fund management industry has always been controversial. Some continue to believe that these intermediaries exercise too much influence over clients, who often have little prior experience of choosing outside managers.

The trend towards external management of pension funds in the US and the UK is continuing and there are even signs of an incipient move in this direction on the continent. On grounds of both cost savings and efficient measurement of performance, companies are increasingly taking the outside route.

This gives the consultants deepening significance and a widening presence. US firms such as Frank Russell and Intersec have set up in London alongside domestic consultants such as Bacon and Woodrow, R.Watson and Mercer Fraser. The US intermediaries are seeking UK managers for Erisa (Employment Retirement Income Security Act) funds in addition to advising UK and continental pension funds.

The intermediaries may stir up controversy but there is no doubting their influence on fund manager selection. "Consultants and actuaries are now actively constructing asset/liability models for clients," says Malcolm Callaghan, a director of fund managers MIM. "This means that clients are giving us more precise benchmarks for the behaviour of their portfolio."

The question of performance continues to be the subject of lengthy debate. UK Consultants Mercer Fraser stated bluntly earlier this year that past performance had no relevance in identifying future trends. While recognising that this statement contains some truth, the consulting industry is now anxious to place it in context.

"Performance remains very important", notes Roger Urwin at consulting actuaries R. Watson. "League tables are still very closely examined by the majority of clients." This view is echoed by other intermediaries, who point out that only the biggest funds take a more relaxed view of league-table positions.

David Gallagher, at Intersec, which is carrying out performance measurement work in some European countries, says that as more funds flow to professional fund managers, the performance factor is inevitably gaining significance. "That is also true on the retail side, where banks on the continent can control as much as 90 or even 100 per cent of mutual fund business."

Fund managers are recognising that their market is becoming increasingly segmented and that clients are demanding more than just performance. "The days of presenting to a new client and being given instructions simply to beat the other managers are fast disappearing", says one industry executive.

Short-termism is definitely on the way out. Consultants work with the results of their own research, into asset/liability structures, for example.

The technique of asset allocation – deciding where and how funds are to be invested – is becoming ever more crucial. "We have some clients for whom we do not manage money but we set their asset allocation," says Mr Callaghan, at MIM. This is an especially daunting task, given the variety of investments available in most developed markets.

Fund managers are recognising that their market is becoming increasingly segmented, and that clients are demanding more than just performance . . . And short-termism is definitely on the way out

Consultants are encouraging clients, with some success, to focus on more distant horizons. "Funds should be looking at the success or otherwise of their long-term objectives," says Alan Baker, at consultants Frank Russell in London. "By that I mean three, five or even seven years and certainly not quarter by quarter."

Assessments of this kind take into account quality and continuity of management and administrative efficiency as well as performance. Consultants are also advising the selection of managers who can

For this reason, the major balanced managers know that they must now offer specialist services. The management of Erisa money for US institutions has become a speciality in itself and will continue to be so, even though the internationalisation of US pension funds has a long way to go before it reaches a par with European and Japanese funds. Only about 3 per cent of the top 200 US funds are invested abroad.

Other specialist skills cover regional markets such as Europe and the Far East as well as emerging markets in Asia and Latin America. The immense growth of derivatives – futures, options and warrants – has sparked interest in this particular sector by some firms. Another area is investment in small capitalisation companies, mainly in the US and the UK.

The UK fund management industry is becoming increasingly concentrated as competition for client business hots up. While there are more than 100 firms in total, around 20 account for nearly 90 per cent of money under management. Mercury Asset Management had by far the largest number of pension fund clients at end-1989 worth £23.6bn. Phillips & Drew Fund Management was second with £14.2bn.

Yet if the managers themselves face tougher competition and ever higher demands from their clients, the consultants too must fight for market share and find new territory. The early entrants into the business in the US have now moved across the Atlantic and some are attempting to crack the continental market.

"The UK market is basically overbroked," says Mr Gallagher, at Intersec, which confines its UK activities to researching potential Erisa managers. Intersec is actively exploring the Continental market, where it sees opportunities for its performance measurement and manager selection capabilities.

Frank Russell has also been building a client base, mainly in northern Europe, over the last two years. "We started from scratch, since the concept of external fund management on the Continent was virtually unknown," says Mr Baker. The firm has been targetting the Benelux countries, Germany and Switzerland among others.

These last two countries have tradition on their side when it comes to resisting the incursion of foreign advisers and managers. Corporate pension funds in Germany and Switzerland have close existing links with banks which outsiders will find hard to break. Regulations also restrict the flexibility of managers to look after different types of funds.

However, it may be hard to resist the competitive trends which have become so strong in the US-UK fund management market. As horizons widen in Europe following the removal of barriers to capital movement, new techniques and new players in the fund management industry can only be welcome.

Nigel Adam

INTERNATIONAL FUND MANAGEMENT 6

Barry Riley explores the strategies and hazards of asset allocation, and the rapid advances in quantitative techniques

Such skill...! But the man in the street might not agree

THE COLLAPSE of the Tokyo stockmarket during the first nine months of 1990 brought vindication for many international investors who had been arguing for several years that Japanese stocks had become unjustifiably overvalued.

But which investors should derive the greatest satisfaction? The "top down" asset-allocators, who constantly juggle their geographical exposures against a global benchmark; or the "bottom up" stock-pickers, who argue that you should simply seek value wherever you can find it?

Consider the global equity manager who only had half of the total 45 per cent exposure to Tokyo that was carried, at the peak, by the global indices such as the FT-Actuaries World Index. The Japanese market subsequently collapsed, in relative terms, by some 25 per cent.

You can then present the figures in two ways. The strategist can argue that, by underweighting Tokyo in this way, he has outperformed the benchmark index by about 6 per cent. This, he will argue, represents is a considerable demonstration of skill and judgment.

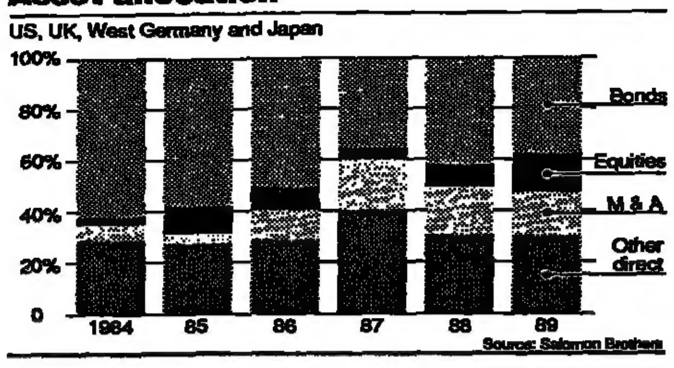
On the other hand, the man in the street might be perplexed by this analysis. What on earth, he might well ask, was the strategist doing by committing 22 per cent of his funds to a market that was plainly overvalued? Should the commitment to such a market not have been nil?

Global investment management presents formidable conceptual problems of measurement. These have come to the forefront with the arrival of sophisticated institutions such as American and British pensions on the global stage.

More traditional kinds of global investor, such as the clients of Swiss banks, have regarded capital preservation rather than growth as their main objective. The chief role of global diversification has been to avoid the disaster of total loss in one particular country through revolution or hyperinflation.

Asset allocation

US, UK, West Germany and Japan



Source: Salomon Brothers

American or British institutions do not have such extreme fears. They see overseas investment as a means of taking advantage of growth opportunities that do not exist at home, and also of seeking the risk-reduction opportunities which arise from the fact that major markets move differently.

This year's Tokyo market collapse may have seemed alarming at times, but there was one tremendously reassuring factor: it was not directly transmitted to other major markets. Indeed, most other markets remained quite firm until July, although all fell in response to the Gulf crisis.

This year's Tokyo market collapse may have seemed alarming at times, but there was one tremendously reassuring factor: it was not directly transmitted to other major markets. Indeed, most others remained firm until July, though all fell in response to the Gulf crisis

Market strategists can therefore continue to assess a world in which the equity markets can be divided into three distinct blocs: the Far East, dominated by Tokyo; Europe, into which the UK will be locked more securely by entry into the exchange rate mechanism; and North America.

The fairly low level of correlation of these major markets increases the chance that international exposure will reduce a portfolio's volatility. But it also poses a problem of measurement. This is why international investors talk so much about "benchmarks".

Global investment involves the possibility of putting money into a wide range of assets: into equities, bonds or short-term liquidity, and all these in a variety of markets and currencies.

A specialist equity manager can be measured against an international stockmarket index. Comparatively few will be assessed in terms of the World Index, but the FT-Actuaries series provides a number of alternatives, such as the World ex US or the World ex Japan indices.

Specialist bond managers are often compared against the Salomon Brothers international bond index, a roll-up index expressed in dollars.

Where managers have a balanced mandate to invest in both equities and bonds the measurement process becomes more tricky, although it is still possible to argue that the equity index should remain the benchmark. Any excursions into bonds should be intended to enhance the overall return.

The next step, however, is to abandon the idea of measuring managers against an index, and instead to assess them in terms of the achievements of their peers. In the late 1980s, for instance, almost all international managers seriously underperformed the Tokyo stockmarket index, but in 1990 almost all will have exceeded it.

If performance does not appear to relate at all closely to an index, perhaps at least it is possible to find out whether a manager has beaten the average performance of similar managers.

This is a measure of a kind, but it creates the possibility that managers will self-consciously seek to imitate their peers. Instead of concentrating only on meeting the objectives of his clients, the manager, under these conditions, also has to cope with his own peculiar business risk – that he might underperform his competitors.

In the extreme, investment strategy can then become a matter of finding out what other similar managers are doing, and then copying them – or at least, diverging to only a small, controlled degree. Often an extraordinary amount of thought goes into these small differences, reflecting the global manager's business objective of beating his competitors by a consistent but small margin: if he can do this, he can argue not only that he is a better manager but that he is only taking a small risk.

There is a quite different approach, however, which is to look for fundamental value, and to ignore considerations such as the market capitalisation weights or gross domestic product weights of particular countries.

Unfortunately, the past few years have not been very kind to the value-oriented managers, with global stockmarket levels distorted by takeover bids or (until this year) by the apparently unstoppable rise and rise of Japan.

In 1990, however, things have begun to go in the fundamentalists' direction again. Perhaps the 1990s will see independent thinkers start to score more consistently over the consensus merchants.

Quant is high fashion even in the smallest boutiques

LAST MONTH Lotus, the US software company, launched the latest in its Lotus One Source family of compact-disc-based information products, covering international equities.

The fund manager can now obtain monthly (or even weekly, if he pays extra) a compact disc containing detailed up-to-date statistical information on some 5,500 listed companies in countries around the globe.

With the right personal computer and appropriate supplied software, he can manipulate the data almost to his heart's desire; for example, screening out stocks for required characteristics.

This illustrates just how rapidly such advanced techniques are becoming universally available. In themselves, the methods of quantitative analysis are not especially new. But now even the smallest boutique can aspire to the "quant" style.

Essentially, quantitative managers set out to harness information technology to the business of running portfolios. Sometimes they use traditional analytical techniques, beefed up by the use of computer power. But they can also go a step or two beyond any style practised in the past. A central theme is the replacement of subjectivity by statistical rigour.

Quant techniques were originally developed in America, and have since spread around the world: there are many enthusiastic practitioners today, in London and Tokyo. But the transition to the global marketplace has not been entirely smooth.

A good example of that is provided by the recent history of the basic quant product, the index fund. This is a portfolio that is designed to track a particular stockmarket index, which may be a country index but could also be a world index or a derivative of it, such as the world ex-US index.

In 1988 and 1989, US pension fund money flooded into global index funds. The move was largely in response to the failure of most global active managers to keep up with the world index, partly because they were seriously underperforming in both the US and Japan, and partly because they baulked at establishing the appropriate weighting in Japanese stocks. At one time last year, the Tokyo market represented 45 per cent of the global market capitalisation, and two-thirds of the world ex-US.

At one point, the Tokyo market collapsed by 50 per cent

So long as Tokyo continued to climb, regardless of the ever-crazier ratings on which Japanese equities were valued, the index funds outperformed the actively-managed portfolios. But it could not last. In 1990, Tokyo has collapsed, by 50 per cent at one stage. Moreover, within the Tokyo market many of the second-line stocks have outperformed the leaders. Active global managers have therefore had their sweet revenge in 1990.

Quantitative products have moved on to another stage, however. One of the important forces in this field is the Bridgeport, Connecticut, firm Wright Investors Services. For one thing, Wright has set up a massive database called Worldscope, covering some 4,500 companies around the globe. There are more than 380 standardiseds items of information on each one.

In fact, Worldscope, supplemented by US company information, is one of the two databases on Lotus One Source International Equities. The other is the I/B/E/S compendium of earnings estimates, from 5,000 analysts worldwide, gathered by the New York broking firm Lynch, Jones & Ryan.

But Wright's latest move is to establish Equifund, a 15-section Luxembourg umbrella fund which takes the index fund concept a stage further. Each sub-fund is a national index fund, but one which is selected according to certain so-called "prudent" criteria. The claim is that, by using Worldscope, Wright can obtain extra performance over and above that of the standard national indices.

Fund managers can now obtain compact discs containing statistical information on 5,500 listed companies

Aimed at US pension-fund clients, as well as comparatively small private investors, the Equifund umbrella permits active switching between country funds, so that investors can easily follow their hunches about geographical weightings.

Equifund brings indexation to continental Europe, where another, purer, practitioner is Länderbank of Vienna, which runs index funds through its London offshoot Barbican Capital Management.

Its key selling point is that many international investors have had a tough time keeping up with the European indices. For example, UK pension funds underperformed by 15 per cent on a cumulative basis between 1981 and 1989.

Sometimes it pays off to take a strong view about countries, most notably so in the case of Japan, where the underweighting by most global investors has paid off handsomely for much of the past 10 months or so. But there can be pitfalls, which is why the next stage in global quantitative management is to develop asset-allocation models.

The idea is that, by incorporating economic and financial data, these can signal the cheap and dear markets – for instance, on the basis of interest-rate movements and comparative price-earnings ratios. To an extent, these are multi-market extensions of the kind of tactical asset allocation techniques developed in the US in an attempt to computerise the decisions about switching between bond and stock markets.

Japan is a special case in several ways; for instance, in arguably falling short of the efficient market criteria assumed by many quantitative analysts. One of London's top quant houses, County NatWest Investment Management, is now testing its skills in Tokyo through a joint venture with Dai-Ichi Mutual Life.

The joint venture will begin with a fairly standard index-tracking fund, and will move on to an active stock-selection fund designed to beat the TOPIX yardstick.

However, the planned third stage will be by far the most ambitious. A daily trading model is being developed, which will incorporate and process huge amounts of data in an attempt to systematise the challenge of operating in the notoriously manipulated Japanese equity market.

Whereas the plain vanilla index fund is the result of the application of quantitative techniques to an efficient market, the Dai-Ichi Life County NatWest stage three model will attempt to deal with inefficiencies. That gives an idea of the range of the challenges facing global quants.

هكذا من الأصل

Country funds

Well-paid niches

COUNTRY FUNDS go in and out of fashion more regularly than football clubs change managers. For brief periods, investors are lured into such funds by the promise of high rewards; but they often withdraw just as quickly when they discover the concomitant high risks.

The abiding attraction to investors is that emerging markets tend to have higher economic growth rates than the countries of the developed world. The corollary is higher earnings growth for companies operating in those markets, and thus higher returns to shareholders.

For investment managers, country funds offer the enticing chance of establishing "niche" areas of expertise, where they are protected from the intense competition for the management of UK general funds. And niche areas, of course, attract higher fees.

A country fund can offer added-value to the institutional investor, which a general UK trust cannot

The beleaguered investment-trust manager, in particular, may find that country funds offer the most convincing argument for the sector's continuing existence. Managers can argue that institutional investors do not have the time or the resources to devote to analysing the smaller equity markets. And even if they could devote the time, they would find it difficult to build a diversified portfolio of stocks with the limited amount of funds they might want to commit to any particular market.

A country fund can thus offer added-value to the institutional investor, which a general UK trust cannot. This should, in theory at least, limit the discount to net asset value on which the shares will trade.

And indeed, it often happens that single-country closed-end funds trade at premiums in their early stages. This is particularly so when the trust has been launched in whatever happens to be the "fashionable" market of the moment.

There is a rationale for funds in smaller markets, such as Taiwan or Thailand, to trade at a premium for a while, because of the difficulties of investing directly in those markets. But in the flush of investor enthusiasm, even funds specialising in areas such as Germany have been known to trade at a premium.

The problem for investors in a closed-end single-country fund is that a sudden change in sentiment towards the particular market can create a "double whammy" effect. Not only do the shares in the fund lose value rapidly, but shares in the fund itself can switch from trading at a premium to trading at a substantial discount.

Nor are open-ended funds free of problems. A change in investor sentiment can cause a flood of redemptions, with the managers then forced to sell shares into a declining and illiquid market.

Steven Bates, a director of Fleming Investment Management, wrote in the Financial Times that "this sort of heart-stopping volatility is a fund manager's nightmare".

A further problem for fund managers is that local investors can often see them coming. When the fund is launched, and is flush with cash, prices will be pushed up in anticipation of their investment decisions; if the market is weak, and open-ended fund managers need to make redemptions, prices will be driven down even further, because investors are aware that they are forced sellers. Nevertheless, such funds continue to be launched as managers seek the latest marketing gimmick that will persuade cautious investors to part with their cash. In the unit-trust industry, even the demise of Dumenil, which made a speciality of offering country funds, has failed to stop the bandwagon from rolling.

Particularly popular, among the managers at least, have been the umbrella funds, normally based in Luxembourg and conforming to the Ucits (Unitised Collective Investments in Traded Securities) pattern. Fidelity, for example, recently launched a range of 21 funds, including 12 regional and country funds.

But the onshore unit-trust industry has not been slow to offer its own range of specialist vehicles. A cursory glance through Finstat's list of authorised UK unit trusts shows funds covering Hong Kong, Singapore & Malaysia, Thailand, Australia, France, Switzerland and the Netherlands, to name just a few. It always helps if some major event can provide a marketing push; the crumbling of the Berlin Wall has inevitably encouraged the launch of several German and eastern European funds.

By far the majority of funds, however, have had a closed-end structure and an institutional investment base. Specialist country funds have had a surge of popularity in the US over the last few years, as American investors, who have traditionally confined themselves to the domestic markets, have belatedly discovered the attractions of overseas investment.

The crumbling of the Berlin Wall has inevitably encouraged the launch of several German and eastern European funds

The rewards can be spectacular. One New York-quoted Spanish fund, for example, rose by 208 per cent in 1989; another, specialising in Germany, rose by 160 per cent in the same year. But such funds have enjoyed equally dramatic falls this year, due to the combination of the poor performance of the world stockmarkets and the dilution of investor enthusiasm caused by the proliferation of specialist vehicles.

On the London stock exchange, there are a host of specialist country funds, many of which are dollar-denominated because of their international shareholder base. Many of them, including those specialising in such markets as India, Hungary and Indonesia, are currently trading at their lows for the year. But the managers need not worry. Fashions will change again.

Philip Coggan

Emerging markets: they offer good value – as well as risk

Politics may impair profits

A GLANCE through the performance record of the world's stockmarkets so far this year would make most international fund managers reach for the indigestion tablets.

In a long list of minus signs, however, a few figures stand out. They include: a rise of 51 per cent, in dollar terms, in Mexico, according to the the FT-Actuaries World Indices in mid-October; and dollar-adjusted jumps of 436 per cent in Venezuela and 127 per cent in Greece, according to the emerging-markets database of the International Finance Corporation (IFC), part of the World Bank. These statistics compare with falls of 37 per cent in Japan and 16 per cent in the US, in dollar terms.

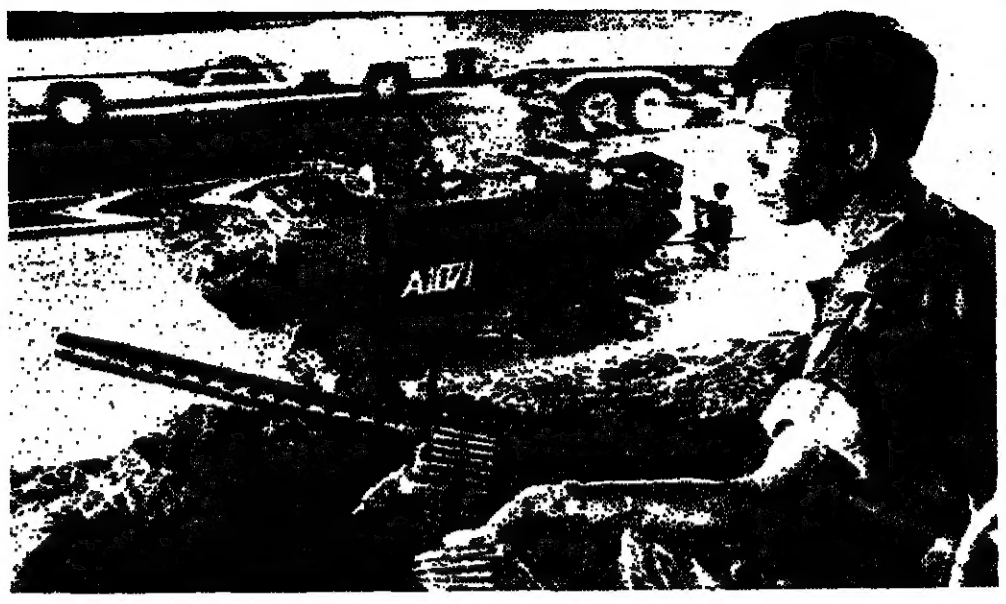
Such huge gains – against the general world trend, and in spite of recent events in the Gulf – indicate that there is still money to be made in some parts of the world.

There are two main reasons for putting funds into developing markets, says Mr Richard Carss, managing director of Genesis Investment Management, an emerging market specialist. The first is the potential strength of corporate earnings. "In developing countries, a high rate of economic growth can translate into a high rate of profits growth."

The second reason is good value. This is often a result of the anomalies that can occur in less mature markets: a stock may be trading on a very low price/earnings (p/e) ratio, for example. Mr David Bates, of Asia Equity (UK), points out that Philippines Long Distance Telephone, the telephone utility which has a virtual monopoly, is currently trading in Manila on a p/e ratio of less than four.

Although the potential profits from emerging markets may be great, the risks of investing in countries that are often politically and economically unstable are high. According to the IFC indices, three markets have fallen even farther than Japan this year: Taiwan, the Philippines and Brazil have plunged 72, 56 and 59 per cent, respectively, in dollar terms.

All three illustrate the political and economic difficulties inherent in less-developed markets. A decline in liquidity, a government crackdown on illegal investment houses and economic gloom have drained Taiwan this year, while poor economic prospects and coup attempts have hit the Philippines. Brazil's decline follows a series of moves designed to tackle the country's hyperinflation and other economic troubles, starting with austerity measures which included a seizure of assets in March.



Coup attempts, like the one in January, have contributed to the fall in the Philippines market

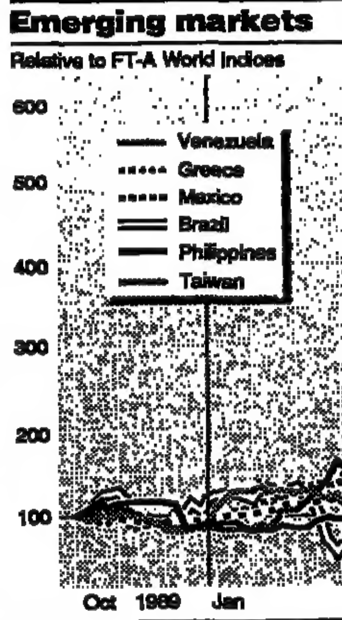
Genesis Investment claims to spread the risk by investing in a wide variety of markets, and by being highly selective in its stock-picking, says Mr Carss. Its emerging-markets fund, therefore, has holdings in countries as diverse as Botswana, Sri Lanka and Hungary, but no one market accounts for more than 14 per cent of the fund.

An event such as the Gulf crisis, however, can undermine the best-hedged plans. Mr Terry Mahony, of Baring America Asset Management, of Boston, Massachusetts, who specialises in Latin American exchanges, says that foreign buying in peripheral markets tends to dry up during times of international crisis. Nevertheless, he points out that, while buyers have become rare in the past couple of months, there has been little or no foreign institutional selling.

Only the more liquid emerging markets have suffered badly from selling pressure, as investors have quickly turned their shareholdings into cash.

Mexico, for example, has fallen 11 per cent in dollar-terms since the start of August on domestic and US selling, in spite of the country's status as an oil exporter. Illiquidity – often seen as one of the drawbacks of small stockmarkets – can sometimes be good news: the steep gradient of Venezuela's advance this year has been due to the country's oil resources – and to the market's lack of liquidity.

Emerging markets



Mr Bates, of Asia Equity (UK), which specialises in far-eastern markets, says that, since the Iraqi invasion of Kuwait, most international fund managers have been happy to hang on to their investments in emerging markets. But they have also been reluctant to buy more, even though many share prices in countries such as Thailand or the Philippines have fallen to bargain levels.

Institutions investing in fledgling markets are unlikely to sell out at the first whiff of trouble. "Our approach is long term," says Mr Carss, of Genesis. "No one should contemplate this if not for the long term."

If a fund manager decides to take the risk of investing in an emerging market, the next question is how. Access to information about companies in developing countries is often difficult to get, as most local stockbrokers do not provide the same level of research as those in London or New York.

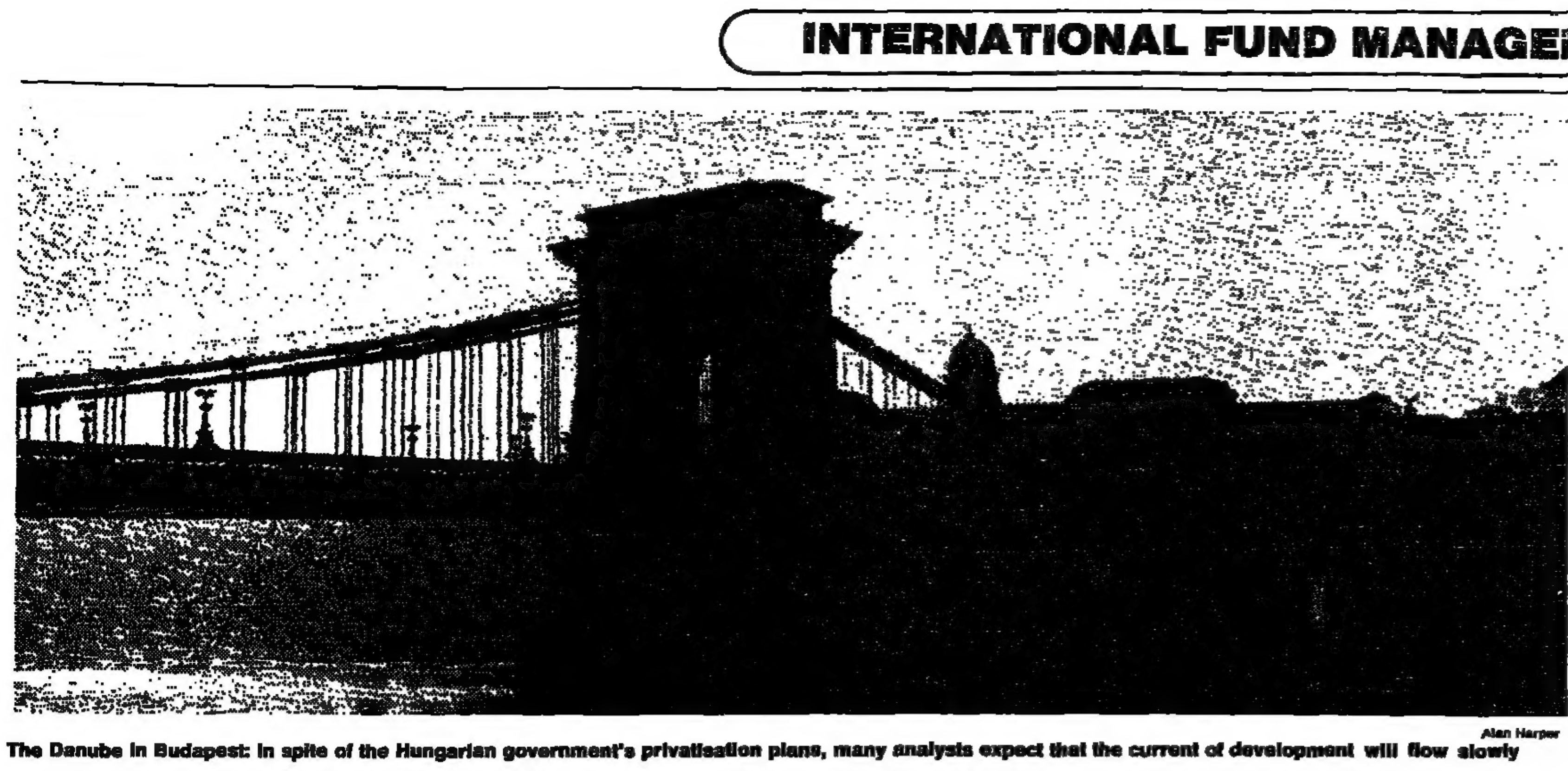
Investing in country and regional funds is one way to get around such problems. Mr Audley Twiston Davies, at Latin American Securities, says that few foreigners invested in Central and South America before such funds existed, because there was no information available. Latin American Securities runs several such funds, including the Brazilian Investment Company, set up in 1987, the Mexican Investment Company, launched last year, and a regional fund.

Some countries do not allow any direct foreign investment, except through special funds. Taiwan, for example, is currently making the first steps towards opening its market to foreigners. At the moment, overseas investors have to invest indirectly through four mutual funds traded offshore.

Meanwhile, once the Gulf crisis has been resolved, the search for the next market success story is expected to resume. The attraction of trying to identify the next Seoul or even Tokyo – itself an emerging market not very long ago – is a strong one. As Mr Twiston Davies says: "Fund managers enjoy placing a small proportion of their portfolios in [emerging markets] to see if they can identify the next Korea."

In the light of Seoul's 34 per cent decline this year and Japan's 37 per cent fall, however, it is worth keeping the risks in mind, and the tablets to hand.

Jacqueline Moore



Alan Harper

The Danube in Budapest: in spite of the Hungarian government's privatisation plans, many analysts expect that the current of development will flow slowly

Eastern Europe: euphoria is fading, and attitudes are more cautious

Returns are likely to be long-term

THE INITIAL euphoria over investment opportunities, which followed last year's liberalisation of east European economies, is fading, and fund managers are beginning to adopt a more cautious approach.

Investment efforts have been bedevilled by the failure of any east European government to make real progress in modernising legal frameworks, and western investors increasingly see returns as long term.

According to Mr Garry Kleiman, an analyst with the Washington-based Emerging Markets Directory, investment in Europe is likely to become more of a "venture capital play", in which the leading actors will be those with a long-term and personal interest in the region.

The interest of Mr Robert Maxwell, the most illustrious of east Europe's business émigrés, is typical. His interest in doing business in east Europe pre-dates the current liberalisation. The $250m investment fund, launched by Mr Maxwell, with Merrill Lynch, in September, aims to take direct stakes in east European joint-ventures. It is the latest of a number of funds to be launched in the last year. Most of these, however, have yet to invest any of the capital they have raised.

The First Hungary Fund, launched by Bear Stearns and the Hungarian National Bank last year, through a private placement, has so far invested only around $500,000 in Hungary – most of it in Ibusz, the travel company which as yet is the only stock on Budapest's embryonic stock exchange.

The Hungarian Investment Company, a $100m open-ended vehicle listed in London, launched by London stockbrokers John Govett, plans to invest 80 per cent of its capital in private Hungarian companies, but has yet to make any progress.

Three or four other funds – including a Salomon Brothers $200m Fund for Eastern Europe and a $50m Austro-Hungarian Fund launched by Lloyds Investment Management and the Austrian bank, Creditanstalt – have had similar experience.

According to Mr Kleiman, most of the money is sitting in Euro-currency deposit accounts. With equity markets depressed, the money is probably earning a better return there. "The funds are up and running, but there is not much from a portfolio standpoint."

Hungary's government plans to privatise 30 companies by the end of 1991, boosting the local equity markets; but, says Mr Kleiman, the pace of developments here could be very slow. "Opportunities are so limited and everyone is chasing the same ones. Legal uncertainties are slowing down the pace of deals."

Some other funds have been looking more actively at direct investment prospects. The Emerging Eastern Europe Fund, or Triple E, launched by the UK financial group Tyndall Holdings last year, was formed with the intention of investing in export-oriented joint ventures.

Tyndall's investment plan combined straight hard-currency investment with local currency, exchanged through debt-equity swaps which it hoped to negotiate with commercial-bank creditors. Last November, the fund's backers identified a host of investment opportunities, including a urea-manufacturing plant in Bulgaria, a printed circuit-board manufacturer in Hungary, and an exporter of apple-juice concentrate in Poland.

Hungary plans to privatise 30 companies by the end of 1991, boosting the local equity markets

The pace of development has been much slower than expected, admits Tyndall's Ms Jane Wigley.

Tyndall, which is linked to the US trade company Conti-Trade Services, has raised $15m; and CTS, which has longstanding trade links with east Europe, has helped to identify a number of projects over the past nine months. But so far, Triple E has invested in only one – a pork and cattle slaughterhouse in the Serbian town of Sabac, in Yugoslavia.

Tripe E will fund half the cost of the slaughterhouse in local currency, obtained by the conversion of Yugoslav debt into dinars and $1m in hard currency. Two local Yugoslav partners will provide $6m in local currency to finance the remainder of the deal. Returns to the Tripe E fund will come from revenues earned by sales of the project's meat exports.

Ms Wigley says CTS has evaluated as turned down between 30 and 40 projects, in an evaluation process that has added to costs. "Some can be discounted quickly. With others you can put a couple of months work in until you decide whether they are right are not."

She says that unevenness in the treatment of accounts and the general absence of common ground about business procedures has made things difficult. "Now that east Europeans know they are being courted, they are growing in confidence and may make more demands," she adds. Ironically too, although this year's political turmoil has been accompanied by an opening up to investment, it has also created considerable instability.

MIM Britannia's East Europe Development Fund explicitly backs a development capital approach. EEDF is seeking between $60m and $100m from institutional backers for a fund that it hopes to launch this month. But according to the fund's prospectus, the region's potential "can only be fully exploited by an initial approach closer to that of the development capital funds than conventional equity funds."

Mr Francis Pike, chairman of European Asset Management, the investment management arm of the MIM fund, says his team aims to build up east Europe's companies from the ground up, linking the provision of advice and consultancy on basic issues, like accounting and marketing to a long-term approach to investment.

Both Mr Pike and CEAM's adviser, Ms Claire Nowak, have family links with Yugoslavia and Poland respectively. CEAM's offices in Budapest, Warsaw, Prague and Belgrade are getting involved in the day-to-day process of building capitalism in eastern Europe. CEAM's Prague office, for example, has recently negotiated a supply of fresh fish for the restaurant whose building it shares. "You have to be pragmatic," concludes Mr Pike.

Richard Lapper

Mutual funds

Transatlantic airs

"A RECIPROCAL agreement is inevitable," says David Silver, president of the Investment Company Institute in Washington DC. "There will be a single world market in mutual funds," echoes Charles Staveley in the London office of Arthur Andersen & Co.

Such categorical statements may sound premature, but pressure is intensifying for a US-European Community treaty on reciprocal marketing in the wake of what is now virtually a European-wide market for mutual funds.

Many mutual-fund managers in the US expect an internationalisation of their business to provide a much-needed boost to their own sluggish market, and an opportunity to export their undoubted marketing skills to what they see as a unified and affluent European market of 323m people. The Europeans, for their part, are hoping to sell in the US on the basis of good fund performance in far-eastern and European markets, many of which are under-researched on Wall Street.

Not everyone is convinced it is a good idea. A director of one of the UK's largest unit-trust groups is against reciprocal marketing, because, as he puts it, "the Americans would steamroll all over us."

Talks aimed at securing a reciprocal marketing agreement between the European Community and the US started back in June 1988, with the Europeans, including the UK's Unit Trust Association, represented by the European Federation of Investment Funds and Companies (EFIFC), and the US represented by the Investment Company Institute (ICI), the national association for the $1,000bn US mutual fund industry.

The pace of discussion has accelerated since the October 1989 deadline for European Community countries to introduce domestic legislation to give national effect to the Commission's directive on Undertakings for Collective Investment in Transferable Securities, known as the Ucits directive.

Some countries failed to meet the deadline, but have now complied, except for Belgium and Italy. Greece and Portugal are not required to implement the directive until 1992.

Ucits represents a start. It makes it possible for an open-ended fund which is authorised in one Community country to be marketed elsewhere in the Community. But even that is not as straightforward as it sounds.

The system of home-country authorisation providing a single passport throughout the Community may sound attractive. But the other side of the Ucits coin is that fund managers have to conform to host-country marketing rules, which vary enormously in matters such as advertising, disclosure of information and cooling-off regulations. There are also national differences in the tax treatment of both funds and investors.

Add to the marketing and taxation hotch-potch the cultural mismatch between, say, the supply of equity investment expertise from the UK and the demand for bond funds in Germany, and it becomes easier to see why many mutual-fund groups are progressing under the banner of "think global, act local".

Meanwhile, the latest round of talks aimed at securing a European-US agreement took place in Washington on September 24, when representatives from the EFIFC and ICI briefed officials from the US Securities and Exchange Commission on progress to date.

Tony Smith, chief executive of the UTA who attended the meeting, says "the next stage will be for SEC staff to prepare a recommendation for the Commission itself. They expect to do this by the end of the year". SEC chairman Richard Breeden is said to be "deeply interested" in internationalisation, so there is a good prospect of the remaining obstacles being cleared.

Chief among these, according to David Silver, is that US law prohibits the purchase or sale of securities by a fund from or to an affiliated market maker acting as principal rather than agent. Such rules do not exist in some European countries, but for the Americans it is the "knottiest problem", according to Silver. He is optimistic this "only remaining major issue" can be resolved. Talks between the Americans and the Europeans have already overcome a quite separate major issue by agreeing to make the differing constitutions of US mutual funds and European UCITS a matter of mutual recognition. Absence of an agreement in that area would have been "a fatal inhibition", according to Silver.

But is a reciprocal agreement really necessary? The Boston-based Fidelity investment company demonstrated long ago that it is possible to be a major player in the US mutual fund market and a major player in the UK unit trust industry. The UK-based GT Group has taken the same step in reverse by setting up US mutual funds which are marketed direct to US residents from the company's office in California and, only a matter of weeks ago, Scottish Widows' first ever mutual fund for US investors attracted more than $40m on its launch day.

Such examples show that trans-Atlantic marketing of mutual funds is already possible. What the supporters of reciprocal marketing argue is that real economies of scale would accrue if just one fund range were recognised everywhere. "It's the preferred route," says Silver, acknowledging that it is not the only one.

Tony Smith has identified three preconditions to an agreement. First, the mutual fund industry on both sides of the Atlantic must demonstrate it has a genuine desire to market to the other side. Second, the various regulatory authorities must be satisfied on the investor protection front and, finally, the governments concerned must have the political will to carry it through.

If an agreement between Europe and the US is forthcoming, it is quite possible to envisage far-eastern countries being drawn in at a later stage. In a significant move last month, the Japanese Ministry of Finance approved licences for two foreign companies, Jardine Fleming in Hong Kong and Warburg, to market mutual funds in Japan. At least two other foreign companies expect to be granted similar licences soon.

Peter Gartland
Editor, The International, the FT's magazine for global investors

Ashley Ashwood

The bid for BAT: Sir James Goldsmith arrives for a meeting of the Takeover Panel, in September 1989

Short-termism

The predators are in retreat

SO MUCH for the barbarians at the gate. With hindsight, 1989's huge debt-financed struggle for RJR/Nabisco was the high-water mark of the last decade's surge of corporate takeover activity in the Anglo-American world.

True, the merger and acquisitions business did not dry up at once. There were still battles left to be fought in 1989 and early 1990. First, there was Sir James Goldsmith's run at BAT Industries in the UK; and then, in the US, the three-cornered fight between Time, Warner and Paramount, and BTR's abortive raid on Norton.

But now – following the failure of the hostile parties in those three cases – it looks as though the pendulum in the 1990s has swung clearly in favour of incumbent corporate boards, and against unsolicited takeovers.

Not least, this seems to be because of the way public opinion has now turned so strongly against the alleged "short-termism" of financial markets in general, and against corporate predators in particular. For better or worse, the international fund manager will have to live in the 1990s in a world where there are going to be fewer predators around.

As two leading US corporate lawyers put it, in a 1990 treatise on mergers and acquisitions:

"In our judgment, the US is already moving away from the 1980s' dominance of hostile takeovers. Questions are also being raised about whether hostile takeovers are one of the causes of a short-term management outlook in the US. Considerations such as thes make it unlikely that the federal Administration and Congress could be induced to undertake a pro-takeover legislative stance."*

Similar words can probably be written about the UK, even under a Thatcher government. And even where predators do pop up, the fund manager's decisions are almost certain to be subject to more political and media scrutiny than they were in the (comparatively) free-wheeling 1980s. The fund manager who readily dumps his 1 per cent of Milwaukee Machine Tools Inc or Wolverhampton Widgets plc to the nearest first predator can expect to be publicly pilloried.

The US legal environment has already altered in a way that answers some of the criticism

In the US, the trend in public opinion has already produced concrete results, in the form both of legal decisions and in the rising tide of anti-takeover statutes, such as draconian laws passed by both Pennsylvania and Massachussetts in the last 12 months. In addition, since 1982, there have been at least two US Supreme Court rulings upholding state anti-takeover laws. In the Polaroid case, in early 1989, the Delaware courts allowed Polaroid to sell a large line of stock to an employee share ownership plan, thus blocking a takeover.

The decisive event, though, was the Delaware Supreme Court's February 1990 decision in the Paramount/Time/Warner case, which allowed Time and Warner to proceed with a merger without considering a rival bid for Time from Paramount.

The gist of the judgement – which has allowed what practitioners call the "just say no" defence – was that an incumbent board did not have a fiduciary duty to accept the highest offer for the company, provided it could show that it had a pre-existing alternative business plan.

This has two important implications: that corporate boards now have some legal protection for pursuing what they regard as "long-term" strategic plans; and that they can now pursue friendly mergers without so much fear of disruption from a third party. This has already had a tangible effect, in helping Corroon & Black, the US insurance broker, merge with Willis Faber of the UK, rather than accept a cash bid from Chicago-based Aon Corporation.

So in the US, the legal environment has already altered in such a way as to answer some of the criticism of alleged short-termism. In the UK, the situation is more ambiguous, with the government still officially unwilling to inhibit takeover activity, except where it has anti-competitive effects, or where it involves state-owned foreign companies taking over UK groups. Hence the government's refusal to refer to the Monopolies and Mergers Commission the Hoylake bid for BAT on "public interest" grounds, in spite of BAT's heavy lobbying of MPs. But what is unmistakable is the continuing drift of public opinion – which, in 1986, had almost certainly helped defeat BTR's bid for Pilkington – towards favouring explicit controls on takeover activity.

In the last year, the Bank of England and leading City figures, such as Lord Alexander, have forcefully revived the notion that the UK's long-standing decline in international competitiveness can be attributed to short-termism in the financial markets, and the pressure this can put on managements to maximise near-term earnings and dividends at the expense of long-range planning.

One very important initiative – since it may point to the thinking of any future Labour government – has been the publication this autumn, by the Institute for Public Policy Research, of a weighty paper, Takeovers and Short-termism. Significantly, it suggests possible options, such as the automatic referral to the MMC of all bids above a certain size; tighter regulation of accounting; and a general policy of "throwing sand in the works" of hostile offers.

**Bidders & Targets: Mergers & Acquisitions in the US, by Leo Herzel & Richard Shepro, 1990 (Basil Blackwell).*

Nick Bunker